

DIVIDEND ON CO-OPERATIVE PURCHASES

A STUDY OF DIVIDEND ON PURCHASES AS
AN ELEMENT IN CO-OPERATIVE TRADING
WITH SPECIAL REFERENCE TO THE BRITISH
CONSUMERS' CO-OPERATIVE MOVEMENT

By

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FOREWORD.

IT is now nearly a century since the Rochdale Pioneers opened their famous store in Toad Lane. The Pioneers were at once idealists and realists. As idealists their ultimate aim was complete social and economic reconstruction; as realists they were concerned to secure the success of their immediate venture. Thus, in their store, they adopted the system of "dividend on purchases," and their great contribution to the growth of the British Consumers' Co-operative Movement to its present dimensions is that they proved the validity of the system and saw it firmly established. How far this growth has brought nearer to attainment the ultimate aim of the Pioneers is a question incapable of precise answer. If the aim is interpreted in general terms, and not in terms of its detailed content as the Pioneers visualised it, such answer as can be given must be sought in a consideration of the part played by the Co-operative Movement in the social and economic reconstruction in this country during the last 90 years. That the Movement has played such a part, and that the part is not a small one, hardly admits of denial.

In this volume, the author is mainly concerned with the realistic question of the system of "dividend on purchases" as it exists at the present day and with

matters related thereto. Among these matters is an account of the present extent, distribution and structure of the Co-operative Movement which will certainly be of large value both to the general and to the specialist reader. The point of view is clearly that of an inside observer, and it may be that some who are not co-operators will consider that certain points are taken for granted which merit discussion or discussion at greater length. Nevertheless, it is safe to assume that even non-co-operators will recognise the volume as a welcome addition to the literature of the British Consumers' Co-operative Movement.

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PREFACE

DURING the post-war years, the rapid development of the Consumers' Co-operative Movement in the sphere of retail distribution and production has caused increasing attention to be paid to this form of industrial organisation. Much of this attention has centred round the dividend on purchases paid by retail distributive co-operative societies.

It is fairly clear from what has been written and said on this subject during recent years that the whole question is imperfectly understood, certainly by those who are outside the Co-operative Movement, and by the majority of those who are inside the Movement.

Undoubtedly the dividend has come to constitute the nerve centre of the retail distributive co-operative society; the moment that nerve centre is touched, something happens. There are certain reactions on capital accumulation, on trade, and on membership. Unfortunately, there seems to be no rule governing such reactions which follow any interference with dividend although, at times, certain tendencies are discernible. If the results consequent upon an alteration in rates of dividend amounted to anything in the nature of a law, any investigation of the subject would be considerably simplified. As it is, the general tendencies are offset in so many instances by contrary movements that to dogmatize on the subject would be to court deception.

This investigation has been pursued in an entirely objective manner. It has not been an investigation brought about to satisfy the requirements of any co-operative authority, but rather has been conducted on purely academic lines. The viewpoint is internal because the subject has been examined as an element in co-operative trading.

There may be statements contained in these pages which will not win the approval of all within the Co-operative Movement, yet to the knowledge of the author the statements are true, and the Co-operative Movement should not be afraid of the truth.

There are some matters, closely related to the general question, which do not, strictly speaking, come within the purview of the subject proper, *e.g.*, the legal aspects, and the taxability of dividends. So far as concerns these things, let it be said that this work is part of a general investigation into the whole question, which treats of all these matters. This published work represents the results of an investigation into that aspect of the question which treats of the importance of dividend on purchases in co-operative trade.

Finally, the author wishes to acknowledge gratefully the help of all those of his colleagues to whom his inquiries on this subject have been addressed, and who have, consciously in some cases, but in most cases unknowingly, contributed to the result of this investigation. Although the approach thereto has been impartial, the author has taken full advantage of his position within the Co-operative Movement and availed himself

of full information on the subject, using the extensive resources of the Co-operative Union. Therefore, due acknowledgment of such facilities must be made to the officials of the Co-operative Union.

The statistics used throughout the major portion of this investigation are the Co-operative Union's published statistics, and a span of fifty years—1882 to 1932—is covered. The statistics for the year 1933, 1934, and 1935, which have since become available, bear out the tendencies which are noted, and do not in any way offset the general conclusions.

It would be beside the point to claim that in this work the last word had been written on the subject of dividend on purchases. The intention has been to draw together within the compass of one work the many abstract theories about dividend and to examine them in the light of present experience and practice. The subject is so important in co-operative enterprise that the Co-operative Movement would be well advised to make this a starting point rather than a final conclusion, and to observe closely the changes in the nature of the problem which will be brought about by changes in conditions and circumstances as the years pass.

J. A. H.

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CHAPTER I

DEFINITION OF DIVIDEND.

The purpose of this book is to examine, as thoroughly and as systematically as is possible in a work of this size, the system of paying dividend on purchases in the British Consumers' Co-operative Movement.

From time to time various papers have been prepared and various articles and pamphlets have been written and published bearing, wholly or in part, on the subject of dividend; references to the question have also been made in different books, dealing with co-operative trading methods, that have appeared during recent years. Much of the information contained in these publications is very valuable and attention will be called to most of it as the work proceeds, for it reveals the way in which the different aspects of the question have constantly agitated the collective mind of the Co-operative Movement. Nowhere, however, is there one complete work that treats exhaustively with the complete question; and it is in order to fill that need, that this work has been undertaken.

An inquiry into co-operative methods, particularly in relation to consumers' co-operation, would be incomplete without a full inquiry into the dividend question, for if the consumer is the foundation of this type of industrial organisation the "dividend" is certainly the corner stone. Herein, the subject will be treated mainly from two different angles, viz., (a) from the economic side, and (b) from the social side; different policies in regard to dividend will be examined and discussed, and the importance of the dividend, as an element in co-operative trading reviewed.

STRUCTURE OF THE CO-OPERATIVE TYPE OF ORGANISATION.

In order to understand fully the significance of the term "dividend on purchases" it is necessary to be conversant with the structure of the co-operative type of organisation, and to appreciate the fundamental difference between the co-operative type of organisation and the joint-stock company type of organisation. A co-operative

society has been described as "*an association of shareholders, usually described as members, who, as individuals, have contributed a fund of capital to be employed under their collective direction for trading purposes in providing for their needs as producers or as consumers.*" This definition embraces two different types of co-operative organisation: (a) productive businesses, in which the members are the producers, and (b) distributive businesses, for the distribution of commodities, of which the members of the society are the consumers, such distribution being intended in most cases to lead up to the production of as many as possible of the goods distributed.

Thus, it is possible to distinguish between the two types, viz., producers' co-operation and consumers' co-operation; the difference between the two is fundamental. It is to the latter of these two types that the subject of dividend on purchases, as most commonly understood, is related, and the scope of this inquiry will, therefore, be limited mainly to the Distributive Co-operative Movement of Great Britain and Ireland.

Each retail distributive co-operative society is a separate organisation and is almost invariably registered under the Industrial and Provident Societies Acts; it can increase its share capital to any figure provided that no individual member holds a greater amount of shares than £200; in addition it may also accept loans, if power to do so is given in the rules of the society. Membership is open to all, and by increasing its membership it makes possible an increase in the aggregate amount of its share capital; the share capital is, in the main, withdrawable at par at short notice.

It will be seen from the foregoing, that whilst the capitalisation of a co-operative society may, externally, resemble that of a joint-stock company, there are certain essential differences*; for whilst the aggregate amount of capital in a joint-stock company is limited to the registered amount of nominal capital there is no such restriction as the limit of £200 per member; furthermore, the shares of a joint-stock company are bought and sold, and this causes considerable fluctuation in their value, but the shares of a co-operative society, being easily withdrawable, do not fluctuate in value.

It is, however, in the remuneration of capital that the fundamental difference between a co-operative society and a joint-stock company is revealed; for whereas in a joint-stock company, the profits are usually distributed in proportion to capital, the capital of a co-operative society is only remunerated at a fixed rate of interest and the balance of profit remaining after payment of such share interest, and after certain other allocations have been made, is distributed

* In addition to the main difference between a co-operative society and a joint-stock company quoted in this work, there are many other differences. Probably the best standard work outlining all the differences is "The Handbook for Members of Co-operative Committees," by F. Hall, M.A., B.Com.

to the members in proportion to purchases.* The rates of dividend vary from society to society, ranging from lower than 6d. in the £ to 4s. 6d. in the £, in 1932. The reason for these differences will be examined later. Also, the difference in the mechanism of dividend on capital and dividend on trade will be fully discussed and illustrated in a later chapter.

The control, management, and administration of a co-operative society are divided among the members, the committee, and the officials of the society, the committee being elected by the members from their own number. The committee should formulate the general policy of the society, and the members should criticise and approve it.

With regard to the rate of dividend obtaining in a society, the committee recommend the rate of dividend and this recommendation is submitted to the members at the members' meeting, along with the balance sheet for the corresponding financial period. Usually, the recommendation of the committee with regard to the rate of dividend is approved; but there are cases on record where the recommendation has been rejected and a higher rate of dividend put forward by the members. Some societies insert a clause in their rules which states that the rate of dividend recommended by the committee shall not be increased by the members at the members' meeting.

The attendance at ordinary members' meetings is usually very small, and represents only a very small proportion of the total membership. This may be taken as an indication of the fact that the members are satisfied with the way in which the operations of the society are being generally conducted. A lowering of the rate of dividend in a society will tend to rouse the members out of their apathy and bring a larger number to the members' meeting, but in some instances even this has little effect on the attendance.

At the end of 1935 there were 1,118 retail distributive co-operative societies in existence in Great Britain and Ireland, and the total membership of these societies was 7,483,976. The size of societies varies greatly, and whilst the largest, at the end of 1935, had a membership of 574,921, there were some societies included in the total of 1,118 which had less than one hundred members.

* Producers' societies, as distinct from consumers' societies, are not the same in this respect; in the former there is a diversity of method of distributing surpluses; some societies distribute amongst capital, labour and trade, whilst other societies distribute amongst only two of these parties.

These societies possess retail shops, commonly known as branches. The small societies may be limited to one or two branches, but the large societies have many branches. The most prominent type of branch is the grocery shop, but most of the average-sized societies have shops covering a wide range of departments, viz., grocery, butchery, dairy, drapery, boot and shoe, tailoring and outfitting, furnishing, &c. In addition to the retail shops a number of societies have their own productive departments, e.g., bakery, and in this way their distributive activities lead up to production after the manner that has been previously indicated.

In order to facilitate buying and to further their productive activities to a greater degree, the retail distributive co-operative societies have federated in forming the wholesale societies. The two most important wholesale societies are the Co-operative Wholesale Society Limited, covering the retail distributive societies in England, Wales, and Ireland, and the Scottish Co-operative Wholesale Society Limited, covering the retail distributive societies in Scotland. No individuals are admitted to membership of the Co-operative Wholesale Society, and in December, 1935, there were 1,033 society members. The Scottish Co-operative Wholesale Society differs from the Co-operative Wholesale Society in admitting employees to membership. In December, 1935, there were 238 society members.

In both the retail distributive societies and the wholesale societies the trading surpluses of the productive departments are added to the trading surpluses of the distributive departments, and the aggregate surplus is distributed in proportion to purchases after interest on share capital and all other charges have been met. In addition to the big federations represented by the wholesale societies, the retail distributive societies in a particular district frequently federate for special purposes such as baking and dairying, and in these federal societies the same principle operates in regard to division of surpluses in proportion to purchases, as has been observed throughout.

HOW DIVIDEND ON PURCHASES ARISES.

By the foregoing brief description of the co-operative type of organisation the way in which "dividend on purchases" arises in co-operative enterprise becomes fairly clear.

What actually happens is that the capital of a co-operative society receives its due reward in the shape of a fixed rate of interest, but no more; the balance of profit remaining, which represents the organiser's surplus, does not likewise go to capital as it does in practice in the case of the joint-stock company type of organisation, but it is divided among the members in proportion to their purchases.

Thus the co-operative type of organisation does not recognise the member, in his capacity as shareholder, but in his capacity as a purchasing member, to be the entrepreneur.

How revolutionary this difference in principle between the two types of organisation really is can only be fully understood when it is realised that, in effect, the proposition so laid down by the co-operative type of organisation is that capital has no right to the organiser's surplus. Professor Gide, in "Consumers' Co-operative Societies," states : "*It is nothing less than the destruction of capital, or at least its reduction to the position of a mere factor in production . . . and that share capital should be reduced to the position of debenture stock.*" Indeed, Professor Gide states that it goes even further than this, and in transferring profits from the capitalist to the consumer actually abolishes profits altogether because to say "*that profits shall be returned to those from whom they were taken is obviously abolishing them.*"

The significance of this new type of industrial organisation represented by Consumers' Co-operation which has sprung into being during the last hundred years, and which has developed with extraordinary rapidity during the last 20 or 30 years has not as yet been fully recognised. Most of the economists of the period have either discussed the subject very lightly or have dealt with it in an unsympathetic manner ; but a type of organisation that embraces over seven million members and indirectly affects approximately 20 million consumers in the United Kingdom, whose retail trade for the year 1935 was over 200 million pounds, demands a closer investigation.

A new type of organisation of great importance has forced its way into the orthodox economic structure ; a type of organisation which, in the relegation of capital to a less important sphere and the application of surpluses as "dividend in relation to purchases," is likely to cause increasingly greater reactions in the sphere of industry and, beyond that, in the wider sphere of social relations. With the development of Consumers' Co-operation and, in consequence, a more widespread application of the system of dividend on purchases, a totally different trend in the distribution of wealth is bound to follow. Under such a system enormous returns to capital are impossible ; the return on capital is fixed ; the surplus remaining is distributed in relation to purchases and the biggest purchaser, in other words the biggest consumer, takes the highest proportion of the surplus.

"Dividend on purchases" in co-operative enterprise is not, in essence, a bait to trade in the ordinary sense of the word, it is a new factor in economics, and one that may have consequences of far greater magnitude than ever were anticipated by those who first formulated the system.

COMPARISON WITH OTHER KINDS OF DIVIDEND.

Following on the increasing success of the system of dividend on purchases in the co-operative type of organisation, it is only to be expected that attempts to imitate the system should be made by other types of organisation, particularly by businesses operating in the same sphere as that in which the co-operative type of business is the most prominent, i.e., the retail distributive trade. Therefore, it is found that certain retail businesses of a proprietary type in some instances claim to pay what is termed a "dividend" on purchases. This "dividend" is stated to be at a certain rate in the £ on purchases, and is sometimes allowed off the current selling price at the time of purchasing, or is allowed on a deferred system on the definite understanding that the accumulated amount must be spent within the business in question.

As a matter of fact, such so-called "dividend" is not really a dividend at all; the word dividend in its most simple form is defined as "the amount divided"; and in the co-operative type of organisation has relation to the surpluses of the business. In private businesses, however, the "dividend" system, when practised, has no relation whatever to the profits or surpluses, and is nothing more or less than an ordinary trade discount or bonus. Moreover, the purchaser in a co-operative shop is, in the vast majority of cases, a shareholder in the business, commonly described as a member, and as the very essence of co-operative trade in this respect is its mutual basis, the buyer and seller are, in effect, the same person. The dividend on purchases in co-operative trade is, therefore, something that is peculiar to that particular type of trade and can only really be imitated by a type of organisation resembling in every detail that of a co-operative society.

Indeed, apart altogether from the dividend on purchases in a co-operative society, which is the accepted method of distributing the surplus disposable after payment of interest on share capital and all other charges have been met, a co-operative society can, if it wishes, and sometimes does, allow a type of "dividend" or "discount" previously referred to, over and above the division of its surpluses. The point to be noticed is that the discount or dividend, other than dividend on purchases, is very obviously an aid to trade, and is designed for no other reason than that of securing additional trade; whereas "dividend on purchases" in co-operative enterprise is a return of surpluses on trading that are a direct result of all the members of a particular type of organisation trading with one another.

There may also be proprietary businesses in existence which actually distribute a certain percentage of their profits as dividend on purchases; but here again the co-operative business is fundamentally different, for the amount of capital that can be held by any member of a co-operative society is limited, as has been previously

noticed, the amount of interest to which that limited capital is entitled is fixed, and the remainder of the surplus is distributed as dividend according to purchases. Furthermore, the persons who provide the capital and the persons who provide the trade, are within the society, the same persons.

The essential difference between dividend on purchases in co-operative trade and other types of dividend will clearly be seen ; it is impossible in co-operative trade for capital to earn a big profit ; the surpluses in the main are returned to the purchaser.

Capital in the co-operative type of organisation is allowed a fixed return in the same way as are the first two factors of production, Land and Labour ; the organiser's surplus is returned to the consumer.

GENERAL NOTE.

(1) Because of the essential characteristics of a co-operative society, the balance remaining as a result of mutual trading is rarely described as "profit" ; indeed, it is argued that persons trading with themselves cannot make a profit, and for that reason the balance remaining is more commonly referred to as "surplus." However, whatever word is used to describe the balance, it is from this balance that the dividend on purchases is allocated.

(2) There is a great diversity between the retail distributive co-operative societies in the United Kingdom ; practice varies from society to society, and because of these differences in practice it is extremely difficult to compare different societies. On account of differences in method some societies are able to pay a much higher rate of dividend on purchases than other societies.

These differences, and other factors, often lead to the question as to whether or not the surplus of a co-operative society is a true profit, that is, whether or not it is a surplus that arises from ability in management as is the case in other types of businesses, in other words, whether or not co-operative trade is conducted on normal competitive lines. These and many other points connected with the method and practice of co-operative trade will be discussed at length in subsequent chapters.

CHAPTER II.

THE HISTORY OF CO-OPERATIVE
DIVIDEND.

1844—ROCHDALE SOCIETY OF EQUITABLE PIONEERS.

It is a moot point whether or not the Rochdale Pioneers were the first to discover, or even apply, the principle of dividend on purchases in co-operative enterprise, but because of the importance of the year 1844 in co-operative history it provides a good starting point for a discussion on the history of dividend on purchases.

The Rochdale Society of Equitable Pioneers was not the first co-operative society, indeed it is claimed that societies were formed 60 or 70 years prior to 1844, and by the end of the eighteenth century there were quite a number of societies in existence. In the majority of these earlier societies, however, profits were divided in proportion to capital; the societies were, for the most part, unsuccessful and this was probably the chief reason for their non-success.

In the year 1844, the Rochdale Society of Equitable Pioneers was formed, and in their "Laws and Objects" they inserted a clause that has great significance so far as this study of dividend on purchases is concerned, viz. :—

"22. That at each quarterly general meeting the officers in their financial statement shall publish the amount of profits realised by the society during the preceding quarter, which shall be divided thus: Interest at the rate of $3\frac{1}{2}$ per cent per annum shall be paid upon all shares paid up previous to the quarter's commencement; *the remaining profits shall be paid to each member in proportion to the amount of money expended at the store.*"

It was the latter half of this clause, chiefly, that drew such a clear line of demarcation between the old type of co-operative society and the present type. At one stroke, the difficulties which had confronted the earlier societies, striving to succeed whilst, at the same time, trying to observe the doctrine of Robert Owen of avoiding profit on price, were circumvented. It is the societies that came into being from 1844 onwards, based on the "Rochdale Plan" and the growth of the activities of the Consumers' Co-operative Movement that provide the subject matter of this essay.

So far as dividend on purchases is concerned, the pre-1844 societies are of little account and, therefore, to the Rochdale Society of Equitable Pioneers must be given the distinction of bringing into the sphere of economic phenomena a new principle.

Another point which should be mentioned at this stage as having a distinct bearing on this work is that although the surpluses of this new type of society were to be paid to the purchaser as "dividend," it was the intention that a generous proportion of the surpluses should be reinvested in the societies as a means of increasing their capital.

It is highly improbable that the Rochdale Pioneers knew anything of economic laws or of the factors of production and the return normally accruing to these factors, yet by a stroke of genius they laid down a proposition that was almost revolutionary in economic theory. They formulated a type of co-operative society that, by coming into the ordinary market and selling at current market price, was able to withstand the competition of private businesses, yet coupled with this they put into operation the system of paying only a fixed rate of interest on share capital and distributing the remaining surplus as dividend according to purchases. Capital was placed, definitely, in a different category than hitherto, the importance of the consumer as such was stressed, and a new type of industrial organisation came into existence, fundamentally different from any other type.

SUBSEQUENT DISCUSSIONS ON THE QUESTION OF DIVIDENDS.

The 30 years immediately following 1844 saw a great growth and consolidation take place within the Co-operative Movement. Other societies were formed on the "Rochdale Plan" and legislation was passed that opened the way for greater progress. In 1842 the first Industrial and Provident Societies Act was passed, followed quickly by an Amending Act in 1854 and a Second Amending Act in 1856. In 1862 a new Industrial and Provident Societies Act was passed, and this Act gave co-operative societies the status of corporate bodies with limited liability and permitted one co-operative society to take up shares in another.

Following on the Act of 1862, the North of England Co-operative Wholesale Industrial and Provident Society Limited was registered in 1863 (the name was changed to the Co-operative Wholesale Society Limited in 1873) and commenced business in 1864. Various attempts to combine for the purposes of wholesale buying had been made prior to this by the retail societies, but the non-success of these efforts was largely due to comparative isolation resulting from bad means of communication and transport, and to the legal barriers with which they had previously been confronted. During the first years of the Wholesale Society its membership included retail societies both in England and Scotland, but in 1868 the Scottish Co-operative Wholesale Society Limited was formed. Throughout this period of development, the number of co-operative societies was increasing

rapidly, and conferences were held in different areas, at which problems confronting the Movement, and other matters, were discussed. In 1869, the first National Congress of the present series was organised at London; this Congress resulted in the formation of the Central Co-operative Board which later became the Co-operative Union.

From 1869 to the present day the Co-operative Congresses have been held annually and full reports of the Congresses are recorded in the Co-operative Union Congress Reports. Examination of these Congress Reports reveals the fact that the question of dividend on purchases was a prominent subject of discussion at an early date in the history of the Congresses.

The following notes relate to references, culled from the Congress Reports, which have a special bearing on the question of dividend and surplus funds.

(a) 1876. "*The Policy of Paying High Dividends.*"—Mr. E. V. Neale.

At the eighth annual Co-operative Congress held at Glasgow in 1876 (this was the first Congress held out of England) a paper on "The Policy of Paying High Dividends" was read by Mr. E. V. Neale, who was secretary of the Co-operative Union from 1873 until 1891. The paper read by Mr. Neale is printed in full in the Congress Report for that year, and the text of the paper and the lengthy discussion that followed the reading of it provide very valuable evidence of the state of mind of the Co-operative Movement of 60 years ago with regard to the dividend question. Mr. Neale adduced arguments to show that in the retail distributive trade societies would be advised to sell at current prices, to make as high dividend as possible on the articles manufactured in private trade with a view to increasing the capital resources of the Movement, but on articles manufactured in co-operative workshops his arguments turned in favour of low dividends in order to increase sales. The following quotations from his paper are interesting:—

"The co-operative society, managed on the conceived plan of selling for cash at ordinary prices, and returning the so-called profits of the business as dividends at the end of each quarter, obviously facilitates saving:—

1st. Because the society cares for its members, withdrawing from them the temptation of frittering away the daily gain in a daily increased expenditure, and presenting to them the total result in a lump sum, which a prudent man will think twice, and perhaps more than twice, before he dissipates.

2nd. Because the societies usually have been able, and if they would carry out Co-operation systematically certainly always would be able, to form for their members first-rate savings banks, which can pay 5 per cent interest on the money placed in them, instead of the regular 2½, and yet offer an excellent security for the principal. And they supply valuable instruments for obtaining the productive employment of these savings:—

1st. From the fact that they draw those who make the savings together, and thus render it more easy to bring any sound scheme of joint action to their attention

2nd. Because the societies can, by union among themselves, offer in their own consumption a market for those manufactured articles for which they have any large demand, and may thus give to the capital invested in such manufacture a guarantee which capital invested in private enterprise would find it very difficult to obtain."

Continuing, he went on to say :—

"I hold it to be true co-operative policy to pay on all such articles (i.e., on articles manufactured by private trade) as high dividends as possible and to let the attractions to outsiders be, not any direct reduction of prices which they may get by dealing with the society, but the indirect reduction measured by the amount of these dividends."

Speaking of the distribution of goods produced in workshops where the profits, after providing for the necessary remuneration of capital, are applied to the social elevation of those by whose labour, used to make this capital fruitful, they have been produced, he said :—

"The balance of argument turns in favour of low dividends, because low dividends would really mean larger sales and increased or more widely diffused social benefits to the working population"

That the subject introduced by Mr. Neale was one which aroused the keen interest of the Congress is evidenced by the length of the discussion which followed, 25 speeches being made from the floor.

A common fallacy in regard to dividend emerged in one part of the debate, viz. : "*The store which had the largest trade would, other things being equal, yield the largest dividend.*" This point will be more fully dealt with later on in this work.

At the conclusion, a very human note was introduced by Mr. Neale in his reply to the discussion, for he said that of those who had made contributions, only two persons had attempted to deal with the object of his paper, and neither of them had understood it.

(b) 1876. *Registrar's Returns of Co-operative Societies.*

It is impossible to make any accurate statement of the statistics of the Co-operative Movement at this time, principally for two reasons, viz. : (a) a number of societies failed to make any Returns, and (b) the societies of all types making Returns were all included in one table. As the retail societies invest in, and buy from, the whole-sale and productive societies, duplication of figures is bound to obtain when all the societies are included in one table.

The Registrar's Returns, however, printed in the Congress Report of 1876, provide some guide as to the figures that were in the minds of the delegates at this Congress where Mr. Neale's paper was read ; for that reason, rather than for accurate statistical purposes, they are given on next the page.

GREAT BRITAIN.

	1873	1874	Increase
Societies making Returns.....	978	1,026	48
Members	387,301	411,252	24,952
Capital—Share	£ 3,569,962	£ 3,903,608	£ 333,646
Capital—Loan	469,735	586,972	90,237
Sales	15,616,353	16,358,278	741,925
Investments—			
Land and Buildings.....	1,469,066	1,651,514	192,448
Other Societies	370,402	418,381	47,899
Companies	459,079	522,081	73,002
Profits	1,109,023	1,226,010	116,787
Dividends to Members... ..	994,607	1,103,239	108,462
Dividends to Non-members	21,702	20,060	1642

These figures, although not furnishing a complete or accurate record, make it possible to appreciate the problems that were exercising the minds of the leaders of the Movement 60 years ago, particularly when it is noticed, with special reference to this subject, that over one million pounds was represented by "dividends to members" in 1874.

(c) 1881 and 1884. *Discussions on Surplus Funds.*

It is particularly interesting to note that, following closely on the discussions at the 1876 Congress on the policy of high dividends, and bearing in mind the stress laid by Mr. Neale on the necessity for accumulating co-operative capital, the Co-operative Movement five years later was discussing the problem presented by the surplus capital, that is, capital remaining after the ordinary trading needs of a society had been met.

At the thirteenth annual Congress held in Leeds in 1881, two papers were read on this subject, one by Mr. J. Smith, secretary of a committee which a Lancashire Conference had appointed to consider and report upon the subject, the other by Mr. J. Crabtree.

At the sixteenth annual Congress held at Derby in 1884 a further two papers were read on the same subject, one by Mr. W. T. Nutter of Leicester, and the other a paper prepared by Mr. J. Hepworth of Coventry, and read in his absence by Mr. R. Hilliard of Derby.

That this question of how to make the best use of the surplus capital of the Co-operative Movement was a question that was causing some anxiety at this time is evidenced by the discussion that followed the reading of the two papers in 1884, for it is recorded "*that this question of surplus capital was brought up at nearly every Congress.*"

The relationship between this question of surplus capital and dividend is a very important one; on the one hand there is the dual capacity of a co-operative society in functioning as a trading organisation and a savings organisation on behalf of the members; on the

other hand, there is the dual nature of the employment of its capital, viz.: by using it in its own trading departments or by investing it otherwise. The surpluses from the trading departments, plus the income from that part of the capital invested otherwise, have to meet both the payment of interest to members on capital and also the dividend on purchases. If capital is not obtained at a reasonable cost, or if that portion of it not required by a society's own business is not employed remuneratively, it will impose an added burden on that portion which is employed within a society. It is because of the connection in this way with the question of dividend that reference is made to the problem of surplus capital which was so patently exercising the minds of Congress delegates during the latter part of the nineteenth century.

(d) 1887. *Discussions on Co-operative and Competitive Trade and Dividends.*

Two more very interesting and informative papers on the subject of co-operative trade and dividends were read at the nineteenth annual Congress held at Carlisle in 1887. Both papers were submitted by Scotsmen. They were as follows: Paper 1, "Alter ego," by Mr. Daniel Thomson; Paper 2, "Summum Bonum," by Mr. Thomas Ritchie. The writers drew a clear line of demarcation between "Competition," by which they meant the orthodox type of economic structure, and "Co-operation," which they claimed to be the antithesis of the former. The attitude of mind is indicated by the opening paragraph of Paper 1, which is as follows —

"Competition and Co-operation. On the one hand the conception of strife—planning, scheming, insinuating strife, on the other, that of effort—combined, guided, consistent effort. On the one hand, self and selfish interests, on the other, brotherhood and mutual help. Here, ceaseless working towards making the many subserve the interests of the individual; there, a settled purpose of making the individual benefit dependent upon the general welfare. Competition proposes to aggregate the profits of trade in the hands of a few, Co-operation seeks to diffuse and divide these among all who assist in making them. Competition seeks the patronage of the public for a specialised end; Co-operation defines its purposes and aims, and invites the public to share its advantages. The scope of competition is towards centralisation of results, that of Co-operation towards community of benefits."

After dealing with the evils of the competitive system and outlining the benefits of the co-operative system, both writers passed on to a discussion of dividend as being one of the central features of co-operative trade, particularly in distributive societies. Some interesting quotations from the papers in reference to the dividend question are submitted below:—

"Alike by the value attached to the dividend, and by the trading conditions of which it is the index, it will be readily admitted that the dividend may be too large in amount or too small. Expenses may be temporarily run down, and prices piled up till efficiency and consistency are lost, and vice versa. Co-operators, however, soon perceive the absurdity

of paying heavily from one pocket that a big sum may go into the other. Still, while it is absurd to pay high prices to secure a large dividend, so it is impolitic to reduce prices to so low a point as to make the dividend unworthy of attention.

Perhaps the safest course to adopt in the matter of pricing is to accept the standard of rates prevailing in the district. These will never be so low as to take away the chances of a fair dividend. If they rule high, it is proof of the existence of the credit system, and the society will reap the advantage of exposing the system and paying a handsome bonus. If, however, the co-operative society in any district is guided with trade wisdom, the fixing of prices and profits will soon be entirely in the hands of the committee, and gradually the members will gravitate towards uniformity in their quarterly dividends, and being freed from surprises will set themselves to discuss the question—What proportion of our purchase values should we aim at paying back to ourselves? In solving this problem one ready method is to find what is the average dividend paid by other societies.

Well, then, as a mere financial item, we think 2s. 6d. or 12½ per cent about the best level for dividends to attain. But the dividend is something more than a mere financial feature in our co-operative system. It may be frankly acknowledged that among our members, as well as in the mass of the public, there are large numbers who would never learn to save were they always in personal possession of their own means. To these, the accumulations of interest and profit in the safe keeping of the society till the close of the quarter, is at once a means of saving and an incentive to further saving. They never could have saved so much had the money been in their hands, and the sight of the quarter's gains starts, it may be, a new feeling of self-respect, and calls up hopes and resolutions that never would have come into existence otherwise. In this respect the big dividend becomes a positive moral agent, and a reason, strong and powerful, is furnished in favour not of attaining abnormally high dividends, but at least of keeping them well up to or over the average.

But the *summum bonum* of co-operative trading lies in the equitable principles that regulate the division of the profits made in the business. To the adoption of the method of distribution known as the Rochdale System we must attribute, to a large extent, the great success that has attended the formation of many of our associations."

It is interesting to note that at this comparatively early stage in the development of the Consumers' Co-operative Movement a dividend of from 2s. to 2s. 6d. per £ was generally considered a reasonable rate. Dividends of 3s. to 4s. were condemned as being too high; and the second of the two papers referred to concluded with a strong plea for a moderate dividend.

(e) 1903. *Discussion on "The Comparative Merits of High and Low Dividends."*

In arranging the programme for the thirty-fifth annual Congress held at Doncaster in 1903, it was decided to bring up for discussion a number of special subjects, of which the above was one. The procedure was adopted "*in order to give guidance and advice to societies in matters of principle and policy.*"

A resolution on the subject was submitted to the Congress by Mr. G. Woodhouse of the Midland Section. The resolution and an outline of Mr. Woodhouse's arguments reproduced from the Congress Report of that year, are given below :—

Resolution :

"That, in the opinion of this Congress, abnormally high dividends are injurious to the progress of the Co-operative Movement, as the payment of such dividends involves the charging of high prices, which has a tendency to diminish trade and to exclude from the benefits of Co-operation those for whom its advantages were chiefly intended, and hereby expresses its opinion that the amount of dividend should not in any society exceed 2s. 6d in the pound."

Arguments adduced to support the Resolution :—

"The question of dividend was one of vital importance, and they were indebted to the United Board for having come to the wise decision of placing it before Congress. Dividend was the profit left after all legitimate expenses of distribution had been provided for. Some co-operators said that anything charged above legitimate expenses was simply plundering the consumer, and that if the Rochdale Pioneers had been true to the teaching of Robert Owen, they would have worked the store at cost price, plus expenses of management, thus eliminating profit. A moment's reflection would show that such a system was impossible, on account of the fractional amounts, to say nothing about depreciation and interest. The only practical plan was to charge sufficient to leave a margin, and that margin must be what the society determined. As to the comparative value of high and low dividends, he regarded it a question of utility, and not of ethics. The dividend should satisfy the members and also be a sufficient inducement for the public to join. Local circumstances had a good deal to do with the question. Some societies might be surrounded with the keenest competition. It was unwise for them to follow such a policy. Another element to be considered was the different rates of wage paid in different parts of the country. That was an important factor in the regulation of the dividend. He did not believe in gross profits of 30 to 50 per cent to ensure large dividends. It was best in the long run for the Co-operative Movement to bring dividends down to compete with those tradesmen who reckoned to sell at fair prices. The dividends paid in some societies must drive trade away. In 1901, 678 paid a dividend of from 2s 6d to 6s. 6d. The others paid from 2s 6d. downwards. Last year the report showed that 684 societies paid 2s. 6d. to 6s. 6d., while the others paid less than half-a-crown. Dividends of over 5s in the pound were ridiculous. Those societies that paid that could not sell at reasonable rates. The most successful societies paid an average dividend of 3s. in the pound. Co-operation in poor districts did not make for a high dividend. There was a great deal to be said for stationary dividends. Fluctuations in dividends often suggested to outsiders that things were going wrong. While it was not a wise policy to pay a high dividend, it was a misfortune for a society to pay less than 1s., because it could not advance in membership and trade; such societies had no vitality, they were frequently in financial difficulties, and discredited the Movement. A low dividend might be due to leakage or low prices. Societies paying abnormally high dividends should educate their members to accept lower dividends, which would be for the ultimate benefit of the Co-operative Movement."

There was an amendment to the Resolution from the Woolwich Society against making 2s. 6d. the limit of dividend, and a further amendment from five Scottish delegates to the effect that it was inexpedient to express any opinion on the subject of high and low

dividends. A considerable discussion took place on the subject, and finally came the voting; the Resolution was declared to be carried practically unanimously.

How far all the arguments propounded are sound, experience has shown, and it is the purpose of this work to examine the facts; but an added interest is given to the Resolution and amendments when it is remembered that in a general sense at the present day, Scotland is the home of societies paying the highest rates of dividend, whereas in the London Area a much lower rate of dividend obtains.

(f) 1914-1919. *General Co-operative Survey.*

Probably the most important inquiry up to the present into co-operative activities was that undertaken by the General Co-operative Survey Committee which was appointed by the Central Board of the Co-operative Union on September 19th, 1914. This committee was formed in accordance with the instructions of the Dublin Congress, 1914, the scope of the committee's inquiries to cover the three main features of the Co-operative Movement, viz.: Education, Production, and Distribution. The committee was divided into four sub-committees as follows:—

- (a) Constitution and Administration.
- (b) Distribution.
- (c) Production.
- (d) Education.

The full committee submitted to the forty-eighth Annual Congress, held at Lancaster in 1916, an Interim Report, and a Third Interim and Fourth (Final) Reports were submitted to the fifty-first Annual Congress held at Carlisle in 1919. Finally, a special Congress was held at Blackpool in February, 1920, "*to consider proposals made by the General Co-operative Survey Committee.*"

The following is the text of the section dealing with "Surplus or Profits" included in the Interim Report of 1916:—

"The surplus (or profit) has increased with increasing membership and trade. Measured in proportion to share capital, it is now about the same as 1881 (30 per cent), but has been higher in the intervening years. Measured in proportion to sales it is slightly higher than in 1891, having risen from 12·69 per cent to 13·5 per cent in 1914. All these percentages are arrived at *after* paying interest on share capital.

Various factors affecting the magnitude of this surplus have been considered, and these are enumerated in the Appendix to the report. We regret to report that the practice of giving credit is, apparently, growing, the relevant data being given in the tables in the Appendix.

The amounts of grants for charities and education show an appreciable increase during recent years.

The rate of dividend seems to be falling, except in Scotland, and the growth of membership is greatest in those districts where dividends are lowest, though this may be unconnected with the dividend paid and due to the greater opportunity for growth in those districts where the dividends happen to be low, e.g., South of England. The dominant dividend is not the same in all sections.

In 1895, 25 per cent of the total membership of the Movement received over 3s dividend, and 15 per cent 2s and under. In 1910 only 19 per cent received over 3s. and 30 per cent received 2s and under."

The detailed work of the General Survey Committee up to 1916, embodied in the Interim Report, has, unfortunately, never been separately published and is hidden in the comparative obscurity of the Lancaster Congress Report, 1916 (pp. 230 to 344); whilst the section of this Interim Report dealing specifically with Surplus or Profits is contained in pp. 273 to 287. This section of the report deals with the following points:—

- (a) *Should a profit be made?*
- (b) *The amount and rate of profits.*
- (c) *Causes affecting the profit.*
- (d) *The disposal of the profits.*
- (e) *Dividend.*

The information compiled by the General Survey Committee in regard to Surplus or Profits, given in the Interim Report of 1916, is so valuable that constant reference to it will be made in this book; indeed, so far as the report as a whole is concerned, students and other interested persons at the present day are constantly finding the tables and information contained therein particularly valuable. The concluding paragraph of this Report is worthy of special notice:—

"These considerations lead us to say that the scientific consideration of the dividend question is only just beginning. The data needs to be supplemented and analysed, and the results made widely known. This need emphasises the urgent necessity of a special research department where this work could be undertaken."

This section of the Report contains a number of valuable tables of statistics relative to share capital, trade, and dividends, and certainly, one of the most valuable functions performed by the General Survey Committee was that of collecting and presenting, in a clear and concise form, statistical information about the Co-operative Movement as a whole. Up to this point the collected statistics of the Movement had not been as complete as they are to-day; but as a result of the work of the committee, figures were collected and marshalled in such a way as to make it possible to present tables showing the statistics for selected years from 1881 to 1914. From this point the published statistics of the Co-operative Union have been more complete and accurate.

Whilst the statistics in the Report provide very valuable information about the Co-operative Movement, up to and including the year 1914, one of the functions of this present work must be to bring the figures and tables relating more particularly to the capital, trade and surpluses of the Movement, up to 1932 in continuance of the work commenced by the Survey Committee, and to present a complete survey of the position during 50 years.

A comparison of the figures during the war period and during the most difficult post-war years should reveal some very interesting facts. Changes have taken place during this period that at times have been both rapid and violent. The reaction of these changes on the entire economic structure has been very severe, every kind of industrial organisation has felt the effect of the extraordinary changes in the level of prices that have been witnessed during the last 20 years, the reorganisation of industrial life generally, and the problem presented by surplus labour resulting in widespread unemployment. The effect of this phenomena on the Co-operative Movement in general, and on its surpluses or profits in particular, should be closely observed.

The Third Interim Report of the General Survey Committee was presented to the Liverpool Congress in 1918, and this Report also contains a section dealing with profits and dividend. The findings of the committee upon this part of their reference led to the following conclusions:—

- “(1) That capital is principally accumulated by dividends and interest being allowed to lie with societies.
- (2) That the maintenance of an unduly high dividend tends to restrict our trading activities by:—
 - (a) Discouraging the opening of departments in which the conditions are such as to prevent the payment of high dividends if the prices are the same as those of outside traders;
 - (b) Tending to keep out of our societies some sections of the community who either are unable to wait until the dividend is paid or are not able to recognise the fact that co-operative prices with dividends deducted are lower than the prices of competitive traders.
- (Note.—The extent to which poorer members of the community are excluded by the practice of paying dividends has probably been exaggerated in some quarters).
- (3) Low dividends are not necessarily the result of low prices, but are frequently due to unavoidably high expenses or to inefficient management.
- (4) There is a tendency for profits and dividends to fall, and this tendency has been accentuated during the period of the war.
- (5) There is comparatively little collective use of profits, the principal forms being educational expenditure, maintenance of newsrooms, collective life assurance, and occasionally the provision of assistance in cases of sickness.”

In addition to the conclusions noted above, the Third Interim Report of the General Survey Committee contained notes on Fixed Dividends, also notes on the abolition of dividend and the collective use of profits. The section of this Third Interim Report is found on pp. 258-261 of the Liverpool Congress Report, 1918, but the Third Interim and Fourth (Final) Reports of the General Co-operative Survey Committee have been printed and published separately by the Co-operative Union.

(g) 1932. *President's Inaugural Address at the Sixty-fourth Annual Congress, held at Glasgow.*

It is particularly interesting to note that, as recently as 1932, the President of the Glasgow Congress, Mr. J. Downie, in his inaugural address, made some trenchant comments on the dividend question. Mr. Downie is the Scottish Sectional Representative on the Executive Committee of the Co-operative Union, and his remarks may be taken as an indication of the changing attitude within the Co-operative Movement in regard to the dividend question, especially as Scotland has hitherto been the home of co-operative societies with a high rate of dividend. The following are two extracts from the inaugural address :—

"How much, if any, is dividend an obstacle here? A half-crown dividend makes our pound worth, co-operatively speaking, 17s 6d on the nail. Can the vast numbers of our people who are rearing families on the child dependant benefit of 2s per head per week afford thus to defer the spending of one shilling in every eight for some months, or even weeks? Scarcely, without inflicting cruelty!

Therefore, I would suggest, for the better immediate service of the needy, for the greater competitive efficiency of our Movement, and as a sound business proposition, that we begin systematically to revise our dividend rates downward. Six years of an annual 10 per cent reduction on the original rate will bring a 2s. 6d. dividend down to a shilling—a fighting level. Longer might be taken, especially where there is a bigger gap to close."

(h) 1921-1935. *Trades and Business Conference Papers, &c.*

In the Congress Year 1920-21, the Co-operative Union inaugurated Trades and Business Conferences. Two papers are usually prepared and read each year at these conferences, and from time to time certain of these special papers have touched on the question of surpluses and dividends and other points having a bearing on this subject. Reference to these papers will be made where the need arises.

CHANGING ATTITUDE.

It will be seen from this historical survey that the question of surpluses and dividends is one that has been giving the Co-operative Movement a great deal of concern, almost from the time that it began to make headway based on the "Rochdale Plan." In addition to

reports, and trades and business conference papers mentioned above, occasional articles have appeared from time to time bearing on the same subject.

During very recent years, however, and more particularly during the last two or three years, the question has come into prominence more than ever before. The call for a policy of lower prices and lower dividends has become more insistent. The linking of prices with dividend in this way is not, of course, an acknowledgment that dividends are the result of high prices ; but it is becoming increasingly urged that any benefit resulting from co-operative trading should be passed on to the purchaser through lower prices rather than through high dividends. This attitude has been considerably strengthened as a result of the agitation within the Co-operative Movement brought about by the altered position of co-operative societies in regard to taxation caused by the changes embodied in the Finance Act of 1933. The position of co-operative societies in regard to taxation will be referred to later.

Urgent, however, as the problem of dividend has been in the past, it is probably true to say that it was never more pressing than it is at the present day. The Co-operative Movement, like all other industrial organisations, has felt the economic reaction of recent years. It has had to readjust itself to new conditions. Its development during past years, and its position at the present day, with special regard to the principle inherent in its constitution of dividing surpluses in accordance with purchases, will be considered from the economic side in the next part of this work.

CHAPTER III.

CO-OPERATIVE CAPITAL—
ITS ACCUMULATION.

It has already been observed that co-operative dividends are related to co-operative trade; co-operative trade necessitates the employment of co-operative capital; the historical survey in relation to the dividend question reveals a close connection between dividends and the accumulation of capital. Added to this there is the eagerness, which has been noted previously, on the part of the Movement as a whole, to increase co-operative capital as quickly as possible.

In approaching the economic aspect of dividends, it therefore becomes necessary to review, first of all, the accumulation and present position of capital at the disposal of the Co-operative Movement.

The different forms in which capital is accumulated in the Movement are as follows:—

- (1) *Shares*, which may be either transferable or withdrawable. No member, however, may hold more than £200, which is the legal limit previously referred to as being imposed by the Industrial and Provident Societies Acts under which almost all co-operative societies are registered. At the end of 1932 the amount of shares in retail distributive societies was: transferable, £1,076,911; withdrawable, £119,823,387.
- (2) *Loans*: A society may accept loans up to any amount provided that power to do so is given in its rules.

In the official statistics of the Co-operative Union the figure designated "Loan Capital" includes a number of sundry funds, including Savings Bank Deposits. (No society with withdrawable share capital may undertake the business of banking, but banks for small savings are not recognised as banking within the meaning of the Act if not more than 10s is taken in any one deposit, and the amount standing to the credit of any account does not exceed £20).

The figure of "Loan Capital" for retail distributive societies at the end of 1932 was made up of the following amounts.—

	£
Loans and Interest	16,295,850
Small Savings	4,996,486
Bank Overdrafts	818,331
Sales Club and other deposits.	589,786
Employees' Thrift and Superannuation Fund	2,956,533
C.W.S. House Purchase Scheme and Mortgages..	141,580
Employees' Guarantee Deposits..	169,895
Tokens	89,844
Sundries	85,863
Total.....	<u>£26,144,168</u>

- (3) *Reserve and Insurance Funds*, these being amounts that have been set aside out of the surpluses of previous years for the purpose of meeting unexpected losses, expected obligations, or to cover extraordinary expenditure, or to stabilise the business. The amount of the Reserve and Insurance Funds of retail distributive societies at the end of 1932 was £11,383,634.

The following table shows the growth of Shares, Loans (including Bank Deposits and Sundry Funds, &c.), and Reserve and Insurance Funds of retail distributive co-operative societies from 1882 to 1932 at ten-yearly intervals.*

Year	Shares	Loans, &c.	Reserve and Insur Funds	Total Shares, Loans and Res.
	£	£	£	£
1882.	6,182,463	702,938	Not available	—
1892.	12,208,677	1,327,444	Not available	—
1902.	23,167,244	3,594,580	1,066,276	27,828,100
1912.	34,744,980	5,072,287	2,430,680	42,247,947
1922.	73,071,598	11,820,400	4,942,574	89,834,572
1932.	120,900,298	26,144,168	11,383,634	158,428,100

In reading all the historical tables in this book relating to the accumulation of funds, trade, &c., the effect of changes in the general level of prices should be taken into consideration. Dealing in particular with the increase of share capital in retail societies, it is probable that in a period when the level of prices and the level of wages are high, or in a period when the level of prices tends to fall more rapidly than the level of wages, the worker will have a greater margin of surplus income. This surplus may either be employed in increased purchases (leading to increased surpluses), or may be invested. In a period when the level of prices tends to rise more rapidly than the level of wages, the reverse would be the case.

From the above table it will be noticed that the share capital of the retail distributive societies has increased tremendously during the period reviewed, and at the end of 1932 was approximately 20 times the amount of 1882. It is particularly interesting to note that in the decade 1912-1922 covering the war years, the share capital more than doubled, and that in the decade 1922-1932, an increase of over 60 per cent on the figures for 1922 was recorded. The rapid growth in the amount represented by loans, &c., and reserves, during the last 20 years is significant, as these increases considerably strengthen the capital resources of the Movement.

It will be noticed that in the 10 years 1922-1932, the percentage increase in "Loans, &c.," was much greater than the percentage increase in "Shares." This may be due to societies which had not previously done so, taking power in their rules to accept loans, or

* The figures for each year from 1882 to 1935 are given in the Appendix.

it may be due to members who had reached the legal limit of £200 in their share account continuing to invest in the society through loan accounts.

Although it is not within the province of this subject to discuss in detail the factors affecting the capital accumulation in co-operative societies, it is advisable, having regard to the fact already mentioned, that the employment of co-operative capital makes possible co-operative trade and co-operative surpluses, to examine some of the salient points connected with the accumulation of capital in retail distributive co-operative societies.

The first question that arises in this connection is the reason for the huge increases of share capital revealed in the above table; one important reason, and probably the main reason, is the huge increase in the membership of retail societies that has taken place in the period under review. This increase in membership is not without its significance in relation to the main study of dividends, and this factor will be dealt with at a later stage, for it clearly shows an extensive increase in the sphere of co-operative enterprise. The intensive increase is revealed by the increase in the figures representing the shareholding per member, and it is to this latter figure that attention should be directed, as well as to the aggregate figures. The aggregate amount of share capital held by retail societies reveals the comparative strength of this section of the Movement, but the figures for share capital per member, judged in relation to the legal limit of £200 per member, to which it is possible to rise, reveal the scope for intensive development of capital accumulation and give some idea of the potential financial strength to which the Movement may attain, even ignoring for the moment any further increase in membership.

The figures in the table given below show the membership, aggregate share capital, and share capital per member in retail distributive co-operative societies from 1882 to 1932 at ten-yearly intervals :—

Year	Membership			Share Capital			
	Number	Actual Inc. during Decade	% Inc	Amount	Actual Inc during Decade	% Inc.	Av. per Mem.
		£	%	£	£	%	£
1882..	598,601	—	—	6,182,463	—	—	10.33
1892.	1,126,880	528,279	88.3	12,208,677	6,026,214	97.4	10.83
1902..	1,892,987	766,107	68.0	23,167,244	10,958,567	89.2	12.24
1912...	2,750,877	857,890	45.3	34,744,980	11,577,736	52.2	12.63
1922...	4,519,162	1,768,285	64.0	73,071,598	38,326,618	110.4	16.17
1932...	6,760,432	2,241,270	49.7	120,900,298	47,828,700	65.5	17.88

N.B.—From 1882 to 1932 the membership had multiplied 11.3 times, and the share capital had multiplied 19.5 times.

The above figures prove that increase in membership is not the only factor affecting the increase of share capital, for if share capital had increased in the same ratio as membership it would, other things being equal, have been approximately £70,000,000 at the end of 1932. The fact that it was well over £120,000,000 at the end of 1932 is abundant proof of the intensive increase that has steadily been going on, apart altogether from the increase in membership, for the additional £50,000,000 must be otherwise accounted for than by the increase in membership.

Narrowing the range of inquiry down to the last 10 years, from the end of 1922 to the end of 1932, and applying the same test, it is interesting to note the results revealed in the following table of membership, aggregate capital and share capital per member in retail distributive co-operative societies from 1922 to 1932 at intervals of one year:—

Year	Membership			Share Capital			
	Number	Actual Inc during year	% Inc.	Amount	Actual Inc. during year	% Inc.	Av. per Mem.
		£	%	£	£	%	£
1922...	4,519,162	—	—	73,071,598	—	—	16.17
1923 ..	4,569,256	50,094	1.1	75,361,543	2,289,945	3.1	16.49
1924.	4,702,868	133,612	2.9	80,216,116	4,854,573	6.5	17.06
1925...	4,910,983	208,115	4.5	85,564,198	5,348,082	6.7	17.42
1926..	5,186,728	275,745	5.6	87,909,381	2,345,183	2.7	16.95
1927...	5,579,038	392,310	7.7	92,281,003	4,371,622	5.0	16.54
1928.	5,885,135	306,097	5.5	99,327,922	7,046,919	7.7	16.88
1929.	6,168,994	283,859	4.9	106,564,889	7,236,967	7.3	17.27
1930	6,402,966	233,972	3.8	112,957,896	6,393,007	6.0	17.64
1931..	6,590,020	187,054	2.9	117,968,460	5,010,564	4.5	17.90
1932 .	6,760,432	170,412	2.6	120,900,298	2,931,838	2.4	17.88

N.B.—From 1922 to 1932 the membership had multiplied 1.5 times, and the share capital had multiplied 1.65 times.

If the share capital during the last 10 years had only increased in the same ratio as the membership, the share capital would, other things being equal, have been approximately £109.6 millions. Actually it was £120.9 millions, which leaves an additional increase of approximately £11.3 millions to be accounted for, apart altogether from the increase due to a proportionate increase in membership.

The arithmetical accuracy of the conclusions drawn from the above two tables, in respect of increase in share capital, apart altogether from increase in membership, can be verified thus:—

Increase in average per member from 1882 to 1932 was (£17.88—£10.33)=
£7.55=Approx. £50 mil.

Increase of £1 per member=£50 mil.

£7.55

Increase in average per member from 1922 to 1932 was (£17.88—£16.17)=
£1.71.

£1.71 per member = £50 mil × £1 71
£7 55 = £11.3 millions.

The figures for membership of retail societies consistently show an increase from 1882 to 1932, with the exception of the year 1922, when a decrease of 29,395 was recorded (from 4,548,557 in 1921, to 4,519,162 in 1922). The figures for share capital also reflected a decrease in 1921 and 1922, viz.: 1920 = £76,347,691; 1921 = £74,818,802; 1922 = £73,071,598. As these decreases are the only decreases recorded during the last 50 years it is quite clear that the Co-operative Movement did not escape the slump that affected the whole of industry during the years 1921 and 1922.

The Co-operative Union, for purposes of organisation, has divided the Co-operative Movement in Great Britain and Ireland into nine geographical areas. These geographical areas are commonly described as Sections, and a list of them showing the areas they embrace, together with an outline map showing approximately the sectional boundaries, will be found in the Appendix. The following table for retail distributive societies shows the number of societies, number of members, shares, loans, and reserves in each section at the end of 1932:—

Section	No. of Socs.	No. of Members	Shares		Loans, &c.	Reserves*
			Amount	Av per Mem.		
Irish	28	59,960	£ 702,445	£ 11.72	£ 481,687	£ 77,663
Midland	143	981,549	18,900,572	19 26	3,957,232	1,489,005
Northern	116	581,343	10,279,223	17 68	2,180,471	835,014
N.-Eastern . . .	160	901,834	17,456,284	19 36	2,722,404	1,062,520
N.-Western . . .	218	1,363,993	28,369,829	20.80	6,344,054	2,122,783
Scottish	234	770,595	14,053,639	18 24	3,306,410	2,729,162
Southern	120	1,588,783	22,754,158	14.32	4,779,138	2,332,172
S.-Western . . .	82	304,893	5,507,695	18 06	1,325,684	445,993
Western	70	207,482	2,876,453	13.86	1,047,088	289,322
Great Britain and Ireland	1,171	6,760,432	120,900,298	17.88	26,144,168	11,383,634

It will be noticed that the average amount of share capital per member varies between the different sections, and it also varies between different Districts in the same section, and between individual societies. In some societies the average rises to about £30 per member, whereas in other societies it is no more than one or two pounds per member.

* A District is a subdivision of a Section embracing a group of Societies geographically related.

There were four Sections out of the nine in which the average per member, in 1932, fell below that for the whole Retail Movement, viz.: Irish, Northern, Southern, and Western. In some cases the lowness of the average is accounted for by the reaction of acutely bad economic conditions in the area concerned, *e.g.*, the average per member in the Northern Section was well above the average for the whole Movement in 1921, but by 1926 it had fallen below the average for the whole Movement and has remained below since that year. This clearly illustrates the effect of the period of bad trade and excessive unemployment afflicting that particular area. The same reason may be advanced in explanation of the lowness of the average in the Western Section, where the geographical area covered embraces the industrial area of South Wales.

The explanation of the lowness of the average in the Southern Section is, however, a different one; the development of the Co-operative Movement in the South is much more recent than in the North, and a great expansion of membership has been taking place during the last few years. This fact accounts for the lowness of the average, as an influx of new members will automatically lower the average. As the position in the Southern Section stabilises itself, the average per member should rise.

It is contended, within the Co-operative Movement, that the limitation of individual shareholding to £200 as fixed by the Industrial and Provident Societies Acts should be removed, or, at any rate, the £200 limit raised, and several unsuccessful attempts to raise the limit have been made. The strongest plea for this alteration is founded on the fact that the purchasing power of the pound was much less in 1933 than it was when the limit of £200 was fixed. In other words, £200 is not worth as much to-day as it was when the Industrial and Provident Societies Acts were passed.

This external limit imposed by law is not, however, the only factor retarding the accumulation of share capital in retail distributive societies: there are internal factors in addition, often found within the rules or resulting from the practice of societies themselves. The following are the most common of these:—

- (1) The payment, by retail societies, of differential rates of interest, *e.g.*, some societies may pay a higher rate of interest on the first £50 of share capital held by a member, and a lower rate of interest for amounts beyond that figure.
- (2) Some societies vary the rate of interest according to the total purchases of the member.
- (3) A restriction on the number of members in one family is imposed by some societies.
- (4) Failing to take power, in the rules of some societies, to accept loans and small savings deposits.

These internal restrictions have a very definite retarding effect on capital accumulation, and the attention of societies has been called to the matter from time to time, particularly in a pamphlet issued by

the Co-operative Union in 1920, "Co-operative Capital. Its Accumulation and Employment," by F. Hall, M A, and in "The Handbook for Members of Co-operative Committees," by the same author. In this book it is pointed out that a discussion on the total amount of share capital and the average share capital per member in retail societies may prove misleading unless account is taken of the fact that in most societies a large number of members hold only a small amount of share capital; figures quoted in the Survey Report previously referred to, showed that 17.5 per cent of the members had less than 5s. standing to their credit as capital, and a further 10.4 per cent, or 28 per cent in all, had less than 10s. share capital; and 40.6 per cent had less than £1, with 54.6 per cent holding less than £10. In another society 61.4 per cent had less than £2; 34.6 per cent had less than £1; 25.6 per cent had less than 10s., and 18.2 per cent had less than 5s. An analysis of the capital holding of a society with more than 100,000 members in 1929 revealed the fact that 57 per cent of the members held less than £2, and 42.5 per cent held less than £1.

Mention was made in Chapter I. of the federations formed by retail societies for the purposes of wholesale buying and manufacture. The largest of these is the Co-operative Wholesale Society. It had a membership of 1,065 retail societies in England and Wales at the end of 1932. Only co-operative societies or companies registered under the Industrial and Provident Societies Acts or the Companies Acts may be admitted as members of the society. The shares are transferable, and a society member must take up shares in proportion to its membership, viz.: one share of £5 for each two members.

As this is one of the outlets for the employment of capital of the retail societies, and as a great amount of the capital of retail societies in England and Wales, not being used in their own businesses, is invested in the Co-operative Wholesale Society, it is important to note the growth of capital in this society.

The following table, therefore, shows the growth of (a) shares, (b) loans, &c., and (c) reserve and insurance funds, of the Co-operative Wholesale Society at ten-yearly intervals, from 1882 to 1932. A column showing the percentage of the total to the total of shares, loans, and reserves of retail societies in England and Wales is also shown:—

Year	Shares	Loans	Reserves	Total	% of Total to Total for Retail Socs.
	£	£	£	£	%
1882 . .	171,939	412,529	19,508	603,976	—
1892 . . .	523,512	918,320	47,885	1,489,717	—
1902 . . .	1,006,894	1,641,380	299,377	2,947,641	13.58
1912	1,916,151	3,853,276	1,505,761	7,275,188	20.94
1922	5,101,255	20,405,835	1,821,726	27,328,816	36.05
1932	10,067,465	66,654,865	7,466,506	84,188,836	60.80

The figures for loans, &c., in the above table for 1925 and subsequent years, include the figures of the Banking Department of the Co-operative Wholesale Society, but they do not include the current and deposit accounts of the C.W.S. Trading Departments with the Banking Department.

The following statement shows the funds of the Banking Department of the Co-operative Wholesale Society in January, 1933 :—

	Credit Balances	Debit Balances
	£	£
Co-operative Societies (including C.W.S. Trade Account)	46,326,561	1,356,657
Trade Unions	2,945,706	364,447
Mutual Organisations.....	2,329,148	3,657,383
Individuals	13,420,230	359,915
	£65,021,645	£5,738,402

In Scotland, the Scottish Co-operative Wholesale Society performs similar functions for the retail societies in Scotland. The shares are to the value of £2 each. Every society in membership must take up one share for each of its members. In addition, it will be remembered that employees of the Scottish Co-operative Wholesale Society may become members, and may apply for a minimum of five shares and may not hold more than 100. At the end of 1932 there were 245 retail societies in membership.

The following is a table on the same lines as that for the Co-operative Wholesale Society, showing the growth of capital in the Scottish Co-operative Wholesale Society :—

Year	Shares	Loans, &c.	Reserves	Total	% of Total to Total for Retail Socs. in Scotland
	£	£	£	£	%
1882 ..	25,093	132,049	12,280	169,422	—
1892	129,973	574,873	77,432	782,278	—
1902 . . .	285,144	1,533,235	301,542	2,119,921	34.87
1912 . . .	455,276	2,868,225	714,323	4,035,824	53.79
1922	1,391,543	4,706,044	1,113,422	7,211,009	51.50
1932	1,716,252	7,399,365	1,725,387	10,841,004	53.98

In the case of the Scottish Co-operative Wholesale Society, a considerable amount of capital is received in the form of funds which rank as accounts paid in advance, and from which payments of debts owing to the Wholesale Society are drawn on the regular pay days.

The Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society have two important joint undertakings, one of which is represented by the Co-operative Insurance Society. This society was an independent society founded in 1867, but was taken over by the wholesale societies in 1913. Although it is a joint undertaking it is registered as a separate society. The capital is in transferable shares and the Co-operative Wholesale Society holds 80 per cent and the Scottish Co-operative Wholesale Society 20 per cent. The capital funds of the Co-operative Insurance Society at the end of 1932 were:—

Shares		Loans, &c.		Reserves
£26,250	..	£25,594	..	£14,638,644

The other important joint undertaking is the English and Scottish Joint Co-operative Wholesale Society. This society is the successor of the joint tea committee of the two wholesale societies, and it was established in 1913. The shares are of the value of £5 each and are unlimited in number; they are provided as to three parts by the Co-operative Wholesale Society and one part by the Scottish Co-operative Wholesale Society. The capital funds of the English and Scottish Joint Co-operative Wholesale Society at the end of 1932 were:—

Shares		Loans, &c.		Reserves
£2,409,000	..	£1,771,635	.	£148,736

In addition to the two wholesale societies operating in England and Scotland, and their joint undertakings, there is the Irish Agricultural Wholesale Society. The membership of this society is largely composed of agricultural societies, but a few retail distributive societies, of which there were only 28 in Ireland at the end of 1932, are also members. The capital funds of the Irish Agricultural Wholesale Society at the end of 1932 were:—

Shares		Loans, &c.		Reserves
£44,659	..	£164,970	...	—

The foregoing survey covers the accumulation of capital in the Consumers' Co-operative Movement of Great Britain and Ireland; but it should be noticed, before leaving this part of the subject, that in addition to the large federations of the retail societies represented by the wholesale societies, there are a number of federal productive and service societies organised by the retail societies, and these are definitely a part of the Consumers' Co-operative Movement. These societies are distinct from the productive societies which consist principally of workers. Some of these latter admit also retail societies and individual members to membership, they include most of the societies described as "co-partnership societies."*

* At the end of 1932 the capital funds of productive societies (including co-partnership societies, but exclusive of the Wholesale Societies) were —

Shares		Loans, &c.		Reserves
£1,974,369	...	£2,206,662	..	£842,895

On account of the duplication of capital which so obviously takes place within the Co-operative Movement, it is difficult to arrive at an accurate figure of the capital strength of the Movement. Having regard to what has been said in this chapter about the reinvestment of capital in federal societies and co-partnership societies, the following formula is probably the best for finding the total available capital of the Movement :—

Capital Funds of all retail distributive societies, plus Reserves of the Wholesale Societies and productive societies, plus Individual Deposits of Share Capital in the S C W S., plus Deposits in the Banking Department of the C W S. by individuals and associations other than co-operative societies, plus Individual Deposits in the co-partnership societies.

Two important things emerge, therefore, from this examination of the capital resources of the Co-operative Movement, viz. :—

- (a) That the total capital resources of the Consumers' Co-operative Movement were well over 200 million pounds at the end of 1932; and
- (b) That probably something like 50 million pounds of share capital has been raised, apart altogether from the natural increase due to increase of membership in retail societies during the last 50 years, i.e., from 1882 to 1932.

Both these factors are very important in any study of the dividend question. In the first place it is the employment of the capital or part of it that makes dividends possible, and in the second place a proportion of the amount allocated as dividend is not drawn by the member but left in the society as share capital.

From tables in the Report of the Survey Committee it is obvious that share capital per member was highest where the rates of dividend are highest; but this is not absolute proof that high rates of dividend are good, and this matter will be discussed thoroughly later. It is, however, generally assumed within the Co-operative Movement that at the present time about one-half of the increases of capital in retail societies arise from dividends on purchases and interest on capital allowed to accumulate as share capital, and that deposits of new capital by members account for the other half of the increases.

In effect, then, it may be said that the co-operative type of organisation has not only relegated capital to a position that is parallel with the other factors of production, but it has discovered a way of automatically adding to its own capital resources. The payment of dividend on purchases clearly fulfils both these functions; on the one hand, it takes no account of the capital holding of the individual member, but on the other hand, it does provide an avenue for the increasing of the share capital per member within the legal limit of £200; in cases where the legal limit is reached, the individual has recourse to the loans account where the society is accepting loans. Certainly that this source of new capital has done much to stabilise the Co-operative Movement, and has probably tided the Movement safely over periods of extraordinary upheaval in the economic sphere.

Again, other things being equal, it provides a safe guarantee that the Movement will continue to grow. Leaving on one side for the moment the possibility of an expanding membership, with the average share capital of retail distributive societies standing *in 1932, at £17 88 per member, there is room for a great amount of intensive development in the case of a great proportion of members before the legal limit is reached; not that the share capital per member for the whole Movement could ever stand at £200, but in spite of that the figure of £17 88 per member by no means represents the limit of the resources of the members.

Indeed, it may be argued that it is essential that the Movement should continue to grow in order to ensure its own stability; it is unlikely that it can remain stationary; if it is not increasing it is likely to be decreasing, and with most of its share capital in withdrawable shares a consistent decrease might lead to undesirable results in spite of the fact that a society may take power in its rules to suspend the repayment of withdrawable shares. The particular type of economic machinery represented by the co-operative organisation is, therefore, a heavy responsibility. That the way in which it functions should be scientifically understood and controlled is essential if the material security of millions of members is to be safeguarded, and not least amongst its peculiar equipment is the system of dividend on purchases.

* In 1935, the average share-capital per member reached £18.14

CHAPTER IV.

**CO-OPERATIVE CAPITAL :
ITS EMPLOYMENT.**

Having surveyed the capital resources of the Co-operative Movement, attention must now be given to the manner in which the capital is related to co-operative trade. The scope of this chapter is, therefore, to review the manner in which the retail distributive co-operative societies and the wholesale co-operative societies employ their capital at the present time. The introductory chapters have revealed the stress which, throughout the history of the Movement, has been placed on the necessity for accumulating adequate capital resources within the Co-operative Movement.

The tables in Chapter III. show the present capital strength of the Movement and also the manner in which the system of paying dividend on purchases, part of which is left within the Movement to accumulate as share capital, has provided the Movement with a unique source of capital. The next point, in order of importance, to be considered is the uses to which the capital is put, for it is from the employment of this co-operative capital in trade that co-operative surpluses arise and dividends are made possible.

The employment of co-operative capital falls, in the main, into two distinct sections, viz. . (a) capital employed by societies in their own businesses ; and (b) capital otherwise invested by societies.

It should be remembered that retail co-operative societies at the present day are not merely regarded by their members as organisations for the purpose of mutual trading, but also as organisations for the purpose of saving. This fact, coupled with the fact that the major portion of capital in retail co-operative societies is in shares that are withdrawable at fairly short notice, makes it imperative that the manner in which such capital is employed should be wisely and judiciously considered. It will be recalled that in Chapter I. it was pointed out that in Consumers' Co-operation it is the intention that distribution shall lead up to the production of as many as possible of the goods distributed ; this element in the Consumers' Co-operative Movement has never been obscured.

An examination of the structure of the Consumers' Movement shows that a great proportion of the capital not being employed by societies within their own individual businesses is invested in other co-operative organisations. For example, it is evident from the survey of capital accumulation in Chapter III. that much of the surplus

capital of the retail distributive societies goes to capitalise the wholesale societies which, in turn, likewise capitalise their joint undertakings. A number of retail societies also join together and thus finance the other federal organisations established for productive and service enterprise. In addition, a number of the retail societies have investments in co-partnership societies, which, although being classified as part of the Producers' Co-operative Movement, are, essentially co-operative in character. Thus, in this way the bulk of the capital of retail societies, whether being used in their own businesses or not, is kept within the Co-operative Movement and is co-operatively employed.

There is, however, a considerable proportion of the aggregate capital of the retail co-operative societies that is invested outside the Movement. Much of it is invested in Government securities, municipalities, railways, &c., and other similar organisations which are not actually anti-co-operative in character; but some proportion is invested in joint-stock companies and other similar undertakings which are definitely anti-co-operative in character. It is difficult to see how the retail societies can invest any great proportion of their surplus capital outside the Co-operative Movement and, at the same time, be consistent with co-operative principles, but the circumstances vary from society to society and some societies are more genuinely co-operative in character and outlook than others, and are, therefore, more loyal to the principles for which they stand and the type of organisation of which they form an integral part. One of the main arguments advanced by co-operative societies as an excuse for the investment of surplus funds outside the Movement is that it is wise for them, and in their best interests, to contribute to the financing of local industries, *e.g.*, many of the retail societies in Lancashire have held and, indeed, still hold, considerable amounts of capital in the cotton industry. This argument is based on the assumption that investments of this type add to the industrial well-being of the particular locality, and give support to industries in which the members of the local co-operative society are employed, probably in great numbers. The criticism of this argument is that it is a somewhat narrow view to take when placed against the large background of the whole of co-operative enterprise, and does not reveal a knowledge of what ought to be a very obvious fact, *viz.*, that capital not being used in co-operative trade, or kept under co-operative control, but invested in other businesses is, by the very nature of things, bound to be employed either directly or indirectly in an anti-co-operative manner.

Furthermore, as will be shown later in this chapter, co-operative capital employed in co-operative trade can be made much more remunerative than co-operative capital invested outside the Movement, thus swelling the amount of co-operative surpluses and

making possible a greater return to the members in dividend on purchases, in addition to increasing the volume of employment within co-operative organisations.

In order to arrive at the total amount of the liabilities side of the Statement of Assets and Liabilities of the different types of societies mentioned in Chapter III., it is necessary to add to the capital liabilities given in that chapter certain other liabilities. The complete total thus shown equals the total amounts of the assets. The following table shows the total liabilities of retail societies, the wholesale societies, and their joint undertakings at the end of 1932 :—

Types of Societies	Total Shares, Loans and Reserves	Share Interest and Disposable Balance	Other Liabilities	Total Liabilities
All Retail Societies in	£	£	£	£
Gt. Britain & Ireland	158,428,100	9,223,611	4,664,547	172,316,258
C.W.S.	84,188,836	913,058	3,052,337	88,154,231
S.C.W.S.	10,841,004	206,868	750,473	11,863,271
E. & S. Joint C.W.S....	4,329,371	103,879	115,275	4,548,525
C.I.S.	14,690,488	30,985	417,757	15,139,230
Irish Agric'l Wholesale Society	209,629	—	120,594	330,225

The manner in which the total assets of the societies mentioned in the above table was distributed between the different items will now be surveyed :—

ALL RETAIL DISTRIBUTIVE SOCIETIES IN GREAT BRITAIN AND IRELAND AT END OF 1932.

ASSETS.		£
Stocks—Distributive, Productive, and Expenses.....		17,809,373
Property—		
Land, Buildings, and Fixtures used in trade.....		42,001,540
Land, Buildings, and Fixtures not used in trade.....		1,238,022
House Property.....		3,190,624
Investments—		
Shares and Loans.....		72,877,429
House Property Advances, C.W.S. House Purchase Scheme and Sundry Investments, including C.W.S. Investment Deposit and Deposit Notes ..		22,381,142
Various Assets—		
Accounts owing by Members for Goods. .	£3,522,272	
Accounts owing by Members—Hire Purchase ..	2,690,221	
		6,212,493
Less Reserve		887,425
		5,325,068
Cash in hand at Bank		6,094,530
Sundry Assets (Accounts paid in advance, &c.).....		1,153,902
Total Balance Deficit of Societies showing Deficits.....		244,628
		<u>£172,316,258</u>

The way in which the individual items in the list of assets, in the above table, expressed as a proportion of the total assets, have changed during the five years 1928 to 1932, is revealed by the figures in the following table:—

Assets	Proportion of Total Assets.				
	1928	1929	1930	1931	1932
Stocks	% 13 84	% 12 96	% 11 68	% 10 63	% 10 34
Property—					
Land, Buildings, and Fix- tures used in trade	25 55	25 13	24 93	24 54	24 37
Land, Buildings, and Fixtures not used in trade ..	94	86	73	.73	.72
House Property	2.42	2 17	2 02	1 81	1 85
Investments—					
Shares and Loans .. .	37 88	39 47	40.60	42 73	42 29
House Property Investments, C W S Deposits, &c	10 63	10 96	11 40	12.22	12 99
Accounts Owing by Members	3 49	3 45	3 30	3 17	3 09
Cash in hand and at Bank . .	4 23	4 01	4 26	3 30	3 54
Accounts Paid in Advance, &c	85	84	91	.72	67
Total Balance Deficit of Societies showing Deficits . . .	.17	15	17	.15	14
	100%	100%	100%	100%	100%

N.B.—In reading the tables relating to employment of capital it should be noted that in many instances the cost of the Land, Buildings, and Fixtures has been “written down” for balance sheet purposes. This brings in a qualification which must be remembered when considering the percentages.

There is a slight tendency observed, over this short period of five years, for the assets representing amounts employed by societies in their own businesses to decrease in proportion to the total assets, this is noticed in such items as Stocks, Land and Buildings, Accounts Owing by Members, &c. The gradual fall in prices in this period is no doubt responsible to a great extent for this change, but whatever the explanation is, it becomes apparent that conversely a greater proportion of the capital of retail societies is being employed in investments outside their own individual businesses. This change is more noticeable in comparing the figures for a much longer period.

*The inference, therefore, is that in the main retail societies tend to accumulate capital rather more quickly than they are employing it in their own businesses.**

At the end of 1932, for example, approximately 42 per cent of the total assets, representing just over 70 million pounds, was actually being employed by retail societies in their own businesses as compared

* The statistics for 1933, 1934, and 1935 confirm still further this tendency.

with approximately 58 per cent of the total, representing about 100 million pounds that was invested otherwise. The bulk of this amount otherwise invested is represented by the item "Shares and Loans"—£72.8 millions, but the greater part of this is represented by shares and loans of the wholesale societies as previously mentioned. Apart from the deposits with the Banking Department of the Co-operative Wholesale Society and the shares held by individual employees in the Scottish Co-operative Wholesale Society, the whole of the capital funds of these two organisations is subscribed by the retail societies.

The following tables show the manner in which the wholesale societies and their joint undertakings employed their capital at the end of 1932 :—

CO-OPERATIVE WHOLESALE SOCIETY.

ASSETS AT END OF 1932.

	£	Per cent of total
Stocks—		
Distributive	2,465,896	2.79
Productive	2,862,296	3.25
Land, Buildings, and Fixtures used in trade—		
Distributive	1,386,966	1.56
Productive	3,223,711	3.66
Land, Buildings, and Fixtures not used in trade	683,185	.78
House Property	73,903	.08
Sundry Investments	68,228,063	77.39
Owing by Members for Goods.. . . .	4,780,201	5.43
Cash in hand and at Bank.	4,264,155	4.84
Accounts paid in Advance.. . . .	185,855	.22
	<u>£88,154,231</u>	<u>100.0</u>

SCOTTISH CO-OPERATIVE WHOLESALE SOCIETY.

ASSETS AT END OF 1932.

	£	Per cent of total
Stocks—		
Distributive	697,152	5.88
Productive	590,035	4.97
Land, Buildings, and Fixtures used in trade—		
Distributive	425,916	3.59
Productive	320,451	2.70
Land, Buildings, and Fixtures not used in trade	—	—
House Property.. . . .	—	—
Investments	8,516,845	71.79
Cash in hand and at Bank	984,167	8.29
Accounts paid in Advance.....	328,705	2.78
	<u>£11,863,271</u>	<u>100.0</u>

ENGLISH AND SCOTTISH JOINT CO-OPERATIVE WHOLESALE SOCIETY.

ASSETS AT END OF 1932.

	£	Per cent of total
Stocks	2,509,721	.. 55.12
Land, Buildings, and Fixtures used in trade	1,126,319	.. 24.76
Land, Buildings, and Fixtures not used in trade	26,951	.. .59
House Property.....	—	—
Investments	13,250	.. .29
Accounts owing	281,145	.. 6.17
Cash in hand and at Bank..	354,387	.. 7.79
Sundry Assets ..	236,752	.. 5.28
	<u>£4,548,525</u>	<u>.. 100.0</u>

CO-OPERATIVE INSURANCE SOCIETY.

ASSETS AT END OF 1932

	£	Per cent of total
Stocks ..	—	—
Land, Buildings, and Fixtures used in trade. ..	60,981	.. .40
Land, Buildings, and Fixtures not used in trade ..	91,472	.. .60
House Property ..	—	—
Investments ..	14,498,317	.. 95.81
Accounts owing by Members ..	169,061	.. 1.11
Cash in hand and at Bank..	73,849	.. .47
Sundry Assets ..	245,550	.. 1.61
	<u>£15,139,230</u>	<u>.. 100.0</u>

The figures and percentages relating to the employment of capital in the wholesale societies and their joint undertakings are, of course, not comparable with the figures and percentages relating to the employment of capital in the retail distributive societies, but it is interesting to note the intricate organisation which has developed within the Consumers' Co-operative Movement. The scope of the activities of the wholesale societies may be said to be :—

- (1) The wholesale distribution of commodities ;
- (2) The supplying of agricultural implements, &c, to the agricultural societies, and of marketing much of their produce ,
- (3) Carrying on manufacturing operations in their own factories, mills, workshops, &c , and marketing the production of these ,
- (4) Farming ;
- (5) Extractive industry , e.g , coal mining ;
- (6) Conducting a variety of services on behalf of the Co-operative Movement, e.g , Banking, Insurance, Auditing, &c.

The heavy proportion of the total assets of the two primary wholesale societies represented by investments is largely made up of investments in their joint undertakings and investments made by the Banking Department of the Co-operative Wholesale Society, whose liability on behalf of clients is of such a nature that it cannot altogether afford to run normal business risks.

The financing of the English and Scottish Joint Co-operative Wholesale Society is of a different character, since its function is largely concerned with the production and marketing of tea, coffee, and cocoa. Again, the peculiar features of the employment of capital by the Co-operative Insurance Society call for special note; an insurance society is naturally financed differently from an ordinary trading institution, and its funds differently employed having regard to its contingent liabilities.

Reviewing the employment of capital as a whole in the Consumers' Co-operative Movement, it will be seen that up to a point the principle of co-operative distribution working back to co-operative production is already being practised; that further development of this principle is possible even within the Co-operative Movement of to-day is equally clear. This element in Consumers' Co-operation has a definite bearing on dividends; it has already been noted that a portion of the capital of the retail societies is employed in their own businesses, and the trading surplus on capital so employed goes to swell the total of the dividend fund. Of the remaining capital the bulk goes to finance the wholesale organisations in both their distributive and productive capacities, and to finance the other federal organisations of retail societies for the purposes of production and services. All these federal organisations operating on the same principle as the retail societies distribute their surpluses as dividend on purchases. Development of co-operative productions through the medium of these federal organisations (which are in essence consumers' organisations), leads finally to the co-operative control of raw materials, and in some spheres this is already in practice, *e.g.*, through the wholesale societies and their joint undertakings.

Thus the organiser's surplus is kept within the Co-operative Movement from the stage when the raw material is first handled (plus the return of capital within the limits normally recognised as the just earnings of capital within the Co-operative Movement). To this return must be added the organiser's surplus and return on capital which may accrue from the economies of co-operative manufacturing and co-operative marketing. The return on capital invested co-operatively, therefore, even if outside the individual business of societies, is not merely one gain but several gains, and this return merged with the ordinary trading surplus of a society's own business is finally passed on to the consumer in the shape of dividend on purchases.

A point that must be remembered throughout any study of surpluses on co-operative trade is that in both the wholesale and retail organisations the surpluses of the productive departments and activities are added to the surpluses of the distributive departments and so increase the total aggregate surpluses. In spite of this fact, however, co-operative capital is not being employed in co-operative trade to the extent that it might be. Retail societies might employ more of their capital in opening new departments in order to more adequately meet the needs of their members, but for different reasons, some of which will be discussed later, they refrain from doing so; likewise, more of their capital might be invested with the wholesale organisations, and the wholesale societies themselves might widen the scope of their productive and manufacturing activities.

Whilst stressing the employment of capital co-operatively in this way as a means of working out the original idea of the Consumers' Co-operative Movement, it must be recognised that there is one important economic difficulty which stands in the way of the members of the Consumers' Co-operative Movement making full use of the total capital resources within the bounds of the Movement itself. This difficulty is recognised in the co-operative application of economics, viz.: "that no modern community can exist entirely on the produce of its own direct efforts, and no civilised country is directly self-supporting. Many of the commodities consumed by the most frugal members of a community must be imported and paid for by commodities exported or services rendered. Therefore, in every country, some of the capital is employed in producing for foreign markets. Hence, until international Co-operation is sufficiently developed, the capital of the British Co-operative Movement cannot very well be extensively employed either in producing in Britain goods for export, or employed abroad in producing goods for the British Co-operative Movement."*

Nevertheless, the statement, familiar to most students of the economics of the British Co-operative Movement, still holds good: "The point to which co-operators might go in employing their own capital and their own members by providing under their own direction for their own needs, has not yet been reached."* The Report of the General Co-operative Survey Committee, previously referred to, urged societies to consider local requirements and opportunities for trade development with a view to extending the employment of members' capital in opening new distributive departments and in increasing their productive activities. This section of the report also urged the retail societies to deposit with the wholesale societies as much of their surplus capital as can be obtained.

* *Vide* course on "Economics of Co-operation," Education Department Co-operative Union Limited

The Report also considered the question of the surplus capital not being used by the wholesale societies in their own businesses, and suggested for consideration the desirability of forming an Investment Society which might take from societies such surplus capital as the wholesale societies were not requiring for their own trading operations. They argued in support of this that a federal society specialising in the business of investment would probably be able to secure better results for the members than the banking department of an institution with wide business ramifications of its own. Up to the present moment, however, these functions seem to be fairly successfully carried out by the Banking Department of the Co-operative Wholesale Society.

In concluding this examination of the manner in which co-operative capital is, in general, employed, and giving consideration to the various points discussed in this chapter in relation to its employment, it must be recognised that in so far as co-operative capital is invested otherwise than in co-operative trade, beyond that point made necessary by the economic interdependence of the country in which the Movement exists, thus far does the Movement subscribe to a type of organisation which it has set itself out to transcend. It is equally true to say also that the amount of such capital so invested is not bringing to the co-operative membership that full return which by the practising of its principles it may rightfully expect, for where co-operative capital is invested in organisations outside the Co-operative Movement, the return on that capital is based on the payment of capital as understood in orthodox economic theory, not as understood in the co-operative sense, *i.e.*, a return on capital as a normal factor of production plus a return of any further surplus as dividend according to purchases.

CHAPTER V.

CO-OPERATIVE TRADE.

It has already been observed that it is from the employment of co-operative capital that co-operative trade arises, and it is not without its significance that in the co-operative type of organisation, as in any other type of industrial organisation, capital must logically be given a place in any discussion leading up to trade and the results of trade.

Capital is necessary in any business in order to provide the necessary equipment and stock, and the necessary liquid funds to meet current expenses; it is just as necessary in the co-operative type of organisation as in a joint-stock company, a partnership, or in private enterprise. The difference between the co-operative type of organisation and the other types of organisation in regard to capital is the difference in stress that is placed upon capital, more particularly in so far as what is considered to be the true earnings of capital. The Co-operative Movement must have capital; it must have the assets that capital can provide, for in an economic sense the assets in question become its capital, just as in any other organisation. From the *résumé* of the manner in which co-operative capital is employed, outlined in the previous chapter, it is evident that the bulk of co-operative capital is employed in co-operative trade.

The retail distributive societies were employing approximately 42 per cent of their available capital in their own businesses at the end of 1932; it was this proportion of their capital, so employed, which made possible their trade. On the face of things this percentage appears to be very small, and while, perhaps, it is true to say that retail societies could use a greater proportion of their own capital in their own businesses than they are doing, the fact must not be overlooked that the greater proportion of the surplus capital funds of the retail societies is invested with the wholesale societies and makes possible the distributive and productive trade of the wholesale societies. Again, in turn, some portion of the surplus capital funds of the wholesale societies is invested in their joint undertakings, and thus makes possible the trade of these joint organisations. The important point to remember, therefore, is that for trading purposes as well as for purposes of capitalisation, the retail societies, the wholesale societies, and the joint undertakings of the wholesale societies are irrevocably linked together; bound

and tied by the peculiar structure of the complete organisation which they represent, for the great wholesale societies find their foundation in the individual consumers joined together in the small retail societies, and by the federation of the retail societies in the wholesale organisations.

It is important that the individual members of retail societies should remember that in trading with the society to which they belong they are employing their own capital; it is equally important that the retail societies should remember that in trading with the wholesale societies they likewise are employing their own capital, not in a single sense, but in a dual sense, for it is at one and the same time the capital of their individual members and the collective capital of the society.

It is necessary, therefore, for us to consider at this stage the total trade of the retail distributive societies, and then to proceed to an examination of the trade of the wholesale societies and their joint undertakings. From what has been said above, the importance of retail co-operative trade is evident, for the retail trade embraces and involves the wholesale trade and provides an indication of the extent to which the consumer members within the Co-operative Movement are making use of the capital they themselves have subscribed.

The tables in the Appendix show, *inter alia*, the total sales of all the retail distributive societies in Great Britain and Ireland from 1882 to 1935, but for purposes of a closer examination the sales for the same period at ten-yearly intervals are shown in the table given below:—

Year	Amount of Sales	Increase for Decade	Percentage Increase for Decade
	£	£	%
1882	17,586,256	—	—
1892.....	32,344,534	14,758,278	83.95
1902... ..	55,319,262	22,974,728	71.02
1912... ..	78,878,658	23,559,396	42.58
1922... ..	169,582,357	90,703,699	115.00
1932.....	201,221,581	31,639,224	18.77

The figure at the end of each decade during the full period under review shows an increase in each case on the figure at the end of the previous decade, and with the exception of the year 1893, when there was a slight decrease, each yearly figure shows an increase on the figure for the previous year down to the year 1921, when the figure fell sharply from £254,158,144 in 1920 (the peak year) to £218,780,384. Another sharp fall took place in the following year

when the figure fell to £169,582,357 (1922). The yearly figures for the years 1923 to 1932 have fluctuated considerably and these figures are shown separately in a later table.

It is necessary, however, in reading the figures in the above table, to take into account the changes in the price level which have taken place during the period, otherwise the conclusions arrived at may be misleading. Unfortunately, there is no co-operative retail price index* available. There are several general index figures of prices covering the years 1882 to 1912, and from 1914 onwards the Ministry of Labour Cost of Living Index is available. None of these index figures is entirely satisfactory; the Cost of Living Index from 1914 meets the need better than the general index figures for the earlier years; but the basis of this figure is not co-operative for it includes elements which would not figure in a co-operative retail price index, *e.g.*, Rent.

The general index figures for the years 1882 and 1912 are not so widely different as to cause any violent changes in the actual amounts and percentages showing the increases for the first three decades in the above table; indeed, the index figures for 1912 were slightly lower than the index figures for 1882, and in 1892 and 1902 they were lower than for either of the former two years; but it is necessary to use the Ministry of Labour Cost of Living Index for the years 1922 and 1932. Adjusting the last two lines of the above table, therefore, *i.e.*, the years 1922 and 1932, on an index of 183 and 143 respectively, the corrected figures are shown as follows:—

Year	Adjusted Amount of Sales	Increase for Decade	Percentage Increase for Decade
	£	£	%
1922.....	92,667,955	13,789,297	14.88
1932.....	140,714,392	48,046,437	34.14

Working on the actual cash figures shown in the former uncorrected table the total trade of the retail societies in 1932 was 11.4 times greater than the total trade in 1882, and recalling what was stated in Chapter III., *viz.*, that the membership of retail societies in the same period had multiplied 11.3 times, it would seem to indicate that there had been an increase in trade over and above the proportionate increase attributable to an increasing membership; in other words, that the average trade per member had shown a slight increase in the period. Taking the adjusted figure for 1932, however, as shown in the corrected table, the total trade in 1932 was only 8.0 times greater than the total trade in 1882. This indicates the fact that actually membership has been increasing more rapidly than trade, and that the average trade per member in 1932 was considerably less than the average in 1882.

* A co-operative price index has been compiled from the commencement of 1935.

the Co-operative Movement during the last 20 years has been extensive rather than intensive; the total membership has increased, but the purchases per member on a 1914 basis have not increased in the same ratio.

In discussing the *real* decline in the average trade per member, it should not be overlooked that there are certain differences in the practice of societies or the circumstances of societies that should be taken into consideration in order that the figure representing the average trade per member may not be misleading. These may be classified as follows :—

- (1) The growth of membership within the Co-operative Movement bringing in members with a lower spending power, *e.g.*, unemployment will undoubtedly make for this.
- (2) The growth of open membership resulting in more than one member of a family being members and thus distributing the family purchases over two or more members.
- (3) The tendency for families to be smaller.
- (4) The hypothetical tendency for new members to be less loyal than older ones.
- (5) The growth of the proportion of non-purchasing members within societies. An examination of the figures of one large society reveals the fact that approximately one-fifth of the members are in this category

It has also been suggested that the greater concentration on co-operative production limits the variety of goods which members can purchase from the society, and thus brings down the average trade per member.

These are all internal factors; but in addition to these, there may be other external factors about which it is only possible to speculate, such as, for example, the greater activity of the private traders and, in particular, the activities of the multiple shops. Another factor affecting the average trade per member is the trade done by societies with non-members. This trade, however, is not a great proportion of the total. The question is discussed more fully in Chapter VII.

On the other hand, it may be argued that both money wages and real wages have risen during the period, and members ought to have had bigger marginal incomes to spend. Again, many societies have opened new departments in the period, thus increasing the facilities offered to their members for buying more of their requirements within their own society.

In dealing with this question of co-operative trade it should be noted that, as in the accumulation of capital, there are wide differences in the respective geographical sections of the Co-operative Movement, both in total sales and in the average sales per member

The following table shows the total retail trade and average trade per member in the different sections at the end of 1932.—

Section	No. of Socs.	No. of Members	Trade	Av. Trade per Mem.
Irish	28	59,960	£ 1,636,000	£ 27 28
Midland	143	981,549	28,893,269	29 44
Northern	116	581,343	16,820,743	28.93
North-Eastern	160	901,834	25,617,579	28 41
North-Western	218	1,363,993	39,222,872	28.76
Scottish	234	770,595	34,084,203	44.23
Southern	120	1,588,783	40,603,882	25.56
South-Western	82	304,893	7,704,015	25.27
Western	70	207,482	6,639,018	32 00
Great Britain and Ireland	1,171	6,760,432	201,221,581	29.76

It is interesting to observe, from the figures in the above table, that in only two sections, viz.: the Scottish and Western, was the average trade per member higher than the figure for the whole Retail Movement.

For purposes of comparison, the sectional figures for 1912 are shown in the following table:—

Section	No of Socs.	No of Members	Trade	Av. Trade per Mem.
Irish	23	16,059	£ 474,257	£ 29.53
Midland	182	353,424	8,196,451	23.19
Northern	135	322,322	10,945,396	33 96
*North-Eastern	—	—	—	—
North-Western	428	1,103,780	30,832,764	27.93
Scottish	267	419,160	16,136,538	38.5
Southern	186	336,146	7,041,642	20 95
South-Western	76	107,663	1,964,840	18 25
Western	91	92,069	3,244,751	35.24
Great Britain and Ireland	1,388	2,750,623	78,836,639	28.66

In 1912 it will be seen that in four sections, viz.: Irish, Northern, Scottish, and Western, the average trade per member was higher than the average for the whole Movement. There was, however, in 1912, a greater diversity in the average figure for each section than in 1932. In 1912, the North-Western Section had easily the highest figure of total trade, but in 1932 the premier position was occupied by the Southern Section, whose average trade per member came much closer to the national average in 1932 than in 1912.

* Included in North-Western up to and including 1923.

ANALYSIS OF DEPARTMENTAL TRADE OF RETAIL DISTRIBUTIVE CO-OPERATIVE SOCIETIES, 1925 to 1934.

Department	Departmental Totals										Departmental Percentages of Total Trade									
	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934
Grocery	mils. £ 126 0	mils. £ 122 7	mils. £ 123.2	mils. £ 123.3	mils. £ 124 9	mils. £ 123 2	mils. £ 122.3	mils. £ 118.9	mils. £ 114 8	mils. £ 119.1	% 68.6	% 66 4	% 62.6	% 58 9	% 57 5	% 56.7	% 58 6	% 59 1	% 58 22	% 57 51
Butchery	12 4	13.1	15 4	17.4	18.2	18 9	17 9	16.8	16 6	17.8	6.8	7 1	7 7	8.3	8.4	8 7	8 6	8 4	8.39	8.60
Dairy	4.7	5.4	6 4	7.7	9.1	10 9	11 6	12.3	12 9	13 6	2.5	2.9	3 2	3 7	4.2	5 0	5.4	6.1	6.59	6 58
Coal	5 0	4.9	6 8	6 9	7 9	8 7	9 2	9 1	8 4	8.8	2 7	2 7	3 4	3 3	3 6	4 0	4 4	4 5	4 28	4.25
Confectionery	*4 8	2 8	2 8	1.7	1 9	2.9	1 8	2 0	2 0	1 9	*2 6	1 5	1 4	8	.9	1 4	.8	1 0	1 02	92
Greengrocery & Fish	1 7	1.9	2.1	2 6	2.8	2 8	3 0	3 1	3 0	3.2	9	1 0	1 1	1.3	1 3	1 3	1.4	1 5	1 49	1 53
Drapery	11.0	11.1	14.1	16 5	17 3	17 8	17.0	16 0	15 7	16 7	6 0	6 0	7 0	7 9	8 0	8 2	8 2	8 0	7 89	8 08
Boot & Shoe.	3 6	3 8	5.0	5.9	6.2	6 0	5 7	5 1	4 8	5.2	2 0	2 1	2 5	2.8	2.8	2 8	2 7	2 5	2.46	2.50
Tailoring & Outfitting	2.7	3.1	4 3	5.1	5 6	5 9	5.8	5 3	5.3	5.7	1 5	1 7	2 1	2 4	2 6	2 7	2 5	2 6	2.69	2.75
Chemist	3	.4	.5	.6	.8	.8	1.0	1 0	1 0	1 2	2	.2	3	3	.3	.4	.4	5	52	.56
†Furnishing	—	—	—	4.3	4.9	5.3	5.3	5.6	5.7	6 5	—	—	—	—	2.1	2.3	2 5	2.8	2 88	3 15
Sundry & Unclass. . .	11 3	15.6	17.3	17 4	17.4	14.1	7 3	6 0	7 0	7.3	6 2	8.4	8 7	8 2	8.1	6 3	4 5	3 0	3 57	3 57
Total Retail Trade..	183 5	184 8	199.9	209 4	217.0	217.3	207.9	201.2	197.2	207.0	100.0	100 0	100 0	100.0	100.0	100 0	100 0	100 0	100.00	100 00

* Includes some bread trade included in grocery in subsequent years.
† Furnishing not separated until 1928 and includes hardware, earthenware, and jewellery.

In examining the trade of retail societies it is interesting to observe the distribution of trade over various departments. The table on the previous page shows the analysis of departmental trade for retail distributive societies for the years 1925 to 1934. The figures must not be taken as absolutely final, since every retail society does not show a complete analysis of its departmental trade; but in a general sense the figures provide a good indication of the position.

As was mentioned at the commencement of this chapter, the trade of the wholesale societies and their federal society, the English and Scottish Joint Co-operative Wholesale Society, must also be examined in reviewing the whole of the trade of the Consumers' Co-operative Movement. So far as concerns the goods required for consumers' retail societies of the ordinary kind, much of the production, and a big proportion of the business of wholesale distribution of goods not made in the Co-operative Movement, is in the hands of the above-mentioned wholesale organisations. In the same way, therefore, as that in which the capital of the retail societies and the capital of the wholesale societies was compared in Chapter III., so may the trade of the retail and wholesale societies be compared.

The following tables show the comparison at ten-yearly intervals from 1882 to 1932, but in reading the tables a warning is necessary, viz., the figures for the trade of the wholesale societies are taken at wholesale prices, whereas the figures for the trade of the retail societies are taken at retail prices; this causes the percentages shown on the tables to appear less favourable than they actually are, for if the gross profit included in the retail figures were deducted it would increase the percentages considerably:—

CO-OPERATIVE WHOLESALE SOCIETY TRADE, 1882-1932.

Year	Total (At Wholesale Prices)	Retail Trade for England, Wales, and Ireland (At Retail Prices)	Per cent of Retail Trade of England, Wales, and Ireland
	£	£	%
1882... ..	4,038,238	15,255,752	26.47
1892... ..	8,300,904	26,458,113	35 15
1902... ..	18,397,559	43,608,234	42.19
1912 . . .	29,732,154	62,740,981	47 39
1922 . . .	65,904,812	135,008,895	48 82
1932 . . .	83,823,641	167,137,378	50 15

SCOTTISH CO-OPERATIVE WHOLESALE SOCIETY TRADE, 1882-1932.

Year	Total (At Wholesale Prices)	Retail Trade for Scotland (At Retail Prices)	Per cent of Retail Trade for Scotland
	£	£	%
1882... ..	1,100,508	2,330,504	47.23
1892... ..	3,104,768	5,886,421	52.74
1902... ..	6,059,019	11,771,028	51.74
1912... ..	8,391,258	16,137,677	52.00
1922... ..	17,009,251	34,573,462	49.20
1932.....	16,147,828	34,084,203	47.38

The sales of the English and Scottish Joint Co-operative Wholesale Society are included in the sales of the separate wholesale societies through which the products of the joint society are sold. The total trade of the joint society in 1932 was £6,208,974.

In the same way that the total amount of retail trade has been affected by the frequent changes in the cost of living, so have the figures representing the trade of the wholesale societies been affected by the frequent changes in wholesale prices. It is necessary, therefore, to take these changes into account in reviewing the total annual distributive sales of the wholesale societies.

The following table shows the combined distributive trade of the wholesale societies and the total retail trade for the whole Movement, together with the Board of Trade Wholesale Price Index. Figures for the years 1913 and 1925 to 1932 :—

Year	Whole- sale Price Index	Total Actual Trade of English, Scottish, and Irish Wholesale Societies (At Wholesale Prices)	Total Actual Retail Trade of Whole Movement (At Retail Prices)	Percentage of Total Retail Trade
		£	£	%
1913..	100.0	40,559,794	83,067,043	48.51
1925..	159.1	94,787,699	183,584,049	51.63
1926..	148.1	92,487,302	184,879,902	50.03
1927..	141.6	105,402,821	199,924,938	52.72
1928...	140.3	104,002,548	209,389,555	*50.87
1929...	136.5	108,947,113	216,967,099	50.21
1930...	119.5	104,148,936	217,318,001	47.92
1931...	104.1	99,179,001	207,888,385	47.71
1932†	101.6	100,514,886	201,221,581	49.95

* Forty-five weeks' Scottish retail trade.

† Fifty-three weeks' trading.

It will be noticed from the foregoing table that the figures for the Irish Agricultural Wholesale Society have been included in the total trade of the wholesale societies, against which the total retail trade for the whole Movement is measured. The reason for this is because, although the Irish Society is mainly composed of agricultural societies, these societies engage to some extent in the business of retail distribution of household commodities. It is not a large society, nor do the figures representing its total trade make an appreciable difference when included with the figures for the other two large wholesale organisations; but it fulfils its own special function in its particular sphere.

For information, the trade of the Irish Wholesale Society for the years shown in the foregoing table is quoted below:—

Year.	Trade.
	£
1925	486,968
1926	469,121
1927	543,896
*1928	543,896
1929	592,178
1930	582,426
1931	543,417
*1932	543,417

Reducing the total trade of the wholesale societies and the total trade of the retail societies to the 1913-1914 level by taking into account the wholesale and retail index figures, the following result is shown for 1932:—

	Actual Total Trade—1932	Index	1932 Trade on 1913-14 Basis
Wholesale Societies ...	£100.5 millions	101.6	£98.9 millions
Retail Societies ...	£201.2 millions	143	£140.7 millions

It would appear, allowing for the growth of retail margins as against wholesale margins, and allowing also for the fact that the wholesale figures are based on wholesale prices and the retail figures are based on retail prices, that the wholesale societies' figure of total trade represents something like 60 to 70 per cent of the total retail trade of the Movement. Taking into account the higher level of the retail price index figures it is probable that the wholesale trade tends to increase as a percentage of the retail trade.

In the wholesale figures, as in the retail figures, however, an analysis of the total trade shows that a very heavy proportion of the total is accounted for by "Grocery and Provisions"; indeed, in the wholesale societies' figures, approximately three-quarters of the total trade is represented by this section.

* As no figures for 1928 and 1932 were available, the 1927 and 1931 figures were included for the purpose of completing the Co-operative Union Statistics.

So far, no mention has been made of the trade done by retail societies with the co-partnership societies, and the reason for that is because, as has previously been noticed, the co-partnership societies belong to another category altogether, viz., the Producers' Co-operative Movement. It is true that some retail societies are members of co-partnership societies, but retail societies are not federated in co-partnership societies as they are in the wholesale societies. It must, however, be mentioned at this point, that retail societies trade with the co-partnership societies and, therefore, in addition to their purchases from the wholesale societies, the amount of their trade with the co-partnership societies must also be reckoned in calculating the proportion of the retail societies' trade which consists of commodities obtained by them through co-operative channels.

The trade done by retail societies with the co-partnership societies will not be discussed in detail here, because the division of surpluses in co-partnership societies is not in accordance with the same principles as in the wholesale societies and retail societies comprising the Consumers' Co-operative Movement. Some of the co-partnership societies distribute their surpluses in accordance with (a) capital, (b) labour, and (c) trade, whilst other co-partnership societies distribute their surpluses to only one or two of these parties.

Sufficient has been said in this chapter to indicate the salient points connected with the trade of the Consumers' Co-operative Movement, and some of the points that emerge have an important bearing on the main subject of this work, viz., the system of dividing surpluses according to purchases.

Amongst other things, it is clear that although much of the retail distributive trade comes through the wholesale societies, there is room for greater development in this respect. It remains for the retail societies to realise more fully that in trading with the wholesale societies they are giving greater scope to the employment of their own capital; also it is fairly clear that the members of the retail societies might do much to increase the average trade per member and thus increase the total of retail distributive trade. It is the retail member, by the expression of demand at the retail counter, who determines, more than any other factor, the trade of the Consumers' Movement, and thereby the manner in which co-operative capital shall be employed.

CHAPTER VI.

CO-OPERATIVE SURPLUSES.

It has been observed (*a*) that a portion of the capital of retail societies is employed in their own businesses (and the trade of the retail distributive societies arising from the use of the capital in this way has been noticed); (*b*) that the bulk of the surplus capital funds of the retail societies is used to finance the wholesale organisations (and the employment of the capital of the wholesale societies, together with the trade resulting from its employment, has also been noticed); (*c*) that some portion of the capital of retail societies, and a much larger proportion of the surplus capital funds of the wholesale societies, is otherwise invested, mainly in Government and Municipal Bonds and Railway Mortgages and Stock.

It is from the use of co-operative capital in these various ways that co-operative surpluses arise. In the main, these co-operative surpluses may be said to be composed of the following elements :—

- (1) The surpluses arising from trade, both of distributive departments and of productive departments;
- (2) The surpluses arising from investments in other co-operative organisations;
- (3) Dividends on purchases made from other co-operative organisations,
- (4) The income from investments in other types of organisations, *i.e.*, from outside investments

N.B.—During the last 10 years efforts have been made to persuade all retail distributive societies to adopt a Standard Balance Sheet. The essential difference between the book-keeping required for this and the ordinary type of book-keeping is that expenses are classified according to function rather than according to nature. One of the accounts recommended is a Property Revenue Account, which is debited with all the charges on property and credited with rents charged to the various branches, departments, &c., on a commercial basis. A surplus or deficit will still exist whether such an account is kept or not, but unless such an account is kept will not be separately revealed. At the present time about three or four hundred retail societies have adopted the Standard Balance Sheet. If all societies were keeping their accounts in exactly the same manner, the advantages for purposes of comparison are obvious.

The importance of conducting a business so that during the financial year the income shall exceed the expenditure and thus leave a profit or surplus need not be emphasised, and co-operative societies are no different from other businesses in this respect. Indeed, in the present co-operative type of organisation it is essential that the business shall be so conducted as to make a surplus possible, for it is from this surplus that interest at a fixed rate is paid on share capital, that dividend on purchases is taken, and that other special allocations, which will be discussed later, are made. The realisation of a surplus is not merely a matter for the present, but it has also a vital bearing on the future, for from its surplus any business is enabled to consolidate itself by building up reserves and by making provision for the renewal of assets used up or depreciated in the ordinary course of trade. As was noticed at an early stage in this work, it is the coming into line with ordinary business methods, in selling at current price and thus making a surplus, that distinguishes the present type of co-operative society on the "Rochdale Plan" from the pre-1844 societies, which were, in the main, unsuccessful.

For convenience in discussing the financial results of business two surpluses are generally recognised, viz., "Gross Surplus" and "Net Surplus." Gross Surplus is often said to be the difference between cost price and selling price, but more usually it is the difference between the cost price of goods with certain expenses added, and selling price. In the accounts of a co-operative society the trading surpluses are shown in the Trading Account. It should be noted that in co-operative trade, interest on capital employed in trade is charged as a trading expense, but this is not usual in the accounts of a proprietary business. Out of the gross trading surplus as revealed by the Trading Account certain expenses may have to be met, and from the same fund co-operative societies make provision for depreciation beyond the amount actually required by the falling-off in value of the assets, also provision for the falling value of stocks, &c. After all legitimate trade and general expenses have been charged against the revenue of the society the balance remaining is regarded as Net Surplus. To this Net Surplus from the trading departments the amounts previously mentioned are added, represented by income from investments; from the total, amounts for interest on shares and dividend on purchases are taken, and other allocations are made.

Some comment is necessary on these two main items included in the net surpluses of co-operative societies :—

(a) *Surpluses on Trade :*

The trading surplus of a co-operative society is affected by the amount of expenses on trade. In the Standard Balance Sheet, previously referred to, the expenses are divided into five groups for distributive departments :—

- (1) Goods and Stock charges, viz : Insurance and interest on stocks ; Interest on credit accounts , Proportion of warehouse expenses
- (2) Selling expenses ; Wages (shops), Health and Unemployment, &c., insurance charges , Workmen's Compensation Insurance , Advertising, printing, and stationery , Checks, check books and sheets ; Telephone charges, postages and telegrams , Licences , Goods for shop use (not for sale) , Bad debts.
- (3) Delivery expenses.
- (4) Land, Buildings, and Fixtures charges, viz. : Ground Rents, Building Rents, Interest on Land, Buildings, and Fixtures ; Rates ; Taxes on land and buildings ; Depreciation on land, buildings, and fixtures ; Painting and decorating ; Cleaning, lighting, and heating
- (5) General charges allocated, viz . Office expenses ; Committee expenses ; Audit expenses , Other general expenses

The expenses of productive departments and service departments are grouped somewhat differently from those of distributive departments in a manner suitable to the particular nature of these departments. It will, however, be clearly seen that these expenses have a direct influence on the trading surpluses of co-operative societies, and it is necessary, therefore, in reviewing the trading surpluses, to review the expenses, and also to measure the trading account surplus against the total trade of the society.

(b) *Income from Investments .*

Having regard to the large proportion of the total capital of societies not being used in their own businesses, the manner in which the surplus capital is invested becomes of paramount importance. By wise investment of these surplus amounts it may be possible to earn a higher return on this portion of the capital of the society than the return due to the subscribing shareholders as interest on their share capital. This will leave a surplus on investments, which, added to the surplus from the trading departments, increases the total net surplus available and makes possible a higher rate of dividend on purchases. On the other hand, the unwise investment of these surplus amounts may yield a poorer return than that being paid as interest on share capital, and thus either tend to reduce the total net surplus available for dividend or throw an added burden on the trading departments in an attempt to keep the total net surplus at the anticipated figure.

The Interim Report of the General Survey Committee, previously referred to, discussing the question of surpluses, commended in general the system of the retail societies selling at current market price and thus creating a surplus; it did not commend the suggestion, made at times, that goods should be sold at cost price plus a uniform percentage to cover the cost of distribution, on account of the various difficulties connected with such a system. The tables in the Appendix give the figures of the total Net Surplus of the retail distributive societies for each year from 1895 to 1935, and to show the position in broad outline the following table gives the figures for selected years down to 1932 :—

Year	Net Surplus including Share Interest	Share Interest	Net Surplus after deducting Share Interest	Net Surplus as a Percentage of	
				Share Capital	Sales
	£	£	£	%	%
1895.. .. .	4,835,593	564,947	4,270,646	30.24	12.6
1902.. .. .	8,682,734	926,690	7,756,044	33.48	14.0
1912.. .. .	11,958,064	1,389,799	10,568,265	30.42	13.4
1922.. .. .	14,060,291	3,389,061	10,671,230	14.65	6.29
1932.. .. .	24,955,502	5,108,004	19,847,498	16.42	9.86

The higher percentages realised in pre-war years and the effect of the economic conditions during the early post-war years are clearly reflected by the figures shown above. The figures for each year from 1923 to 1932 are given below in order that the changes during the last 10 years may be more clearly shown :—

Year	Net Surplus including Share Interest	Share Interest	Net Surplus after deducting Share Interest	Net Surplus as a Percentage of	
				Share Capital	Sales
	£	£	£	%	%
1923.....	15,916,246	3,288,033	12,628,213	16.76	7.63
1924. . . .	18,947,448	3,413,841	15,533,607	19.36	8.87
1925.....	20,479,780	3,617,886	16,861,894	19.71	9.18
1926. . . .	20,927,387	3,793,799	17,133,588	19.49	9.27
1927.....	23,424,774	3,924,807	19,499,967	21.13	9.75
1928.. .. .	24,735,438	4,171,646	20,563,792	20.70	9.82
1929. . . .	26,133,911	4,525,185	21,608,726	20.28	9.96
1930.....	26,938,024	4,823,384	22,114,640	19.58	10.18
1931.....	26,426,300	5,078,031	21,348,269	18.10	10.27
1932	24,955,502	5,108,004	19,847,498	16.42	9.86

Reading both the foregoing tables together it will be seen that the net surpluses, both as a percentage of Share Capital and of Sales, have fallen considerably during the last 40 or 50 years; the fall was very marked in the years immediately following the war, but a recovery was apparent in the middle of the last decade, whilst the figures for the year 1932 show a considerable fall on those of 1931.

The net surplus in relation to Share Capital and to Sales varies considerably between different societies and between the different geographical sections. The following table gives the sectional figures for 1932 :—

Section	Net Surplus including Share Interest	Share Interest	Net Surplus after deducting Share Interest	Net Surplus as a Percentage of	
				Share Capital	Sales
	£	£	£	%	%
Irish . . .	114,966	35,113	79,853	11.37	4.88
Midland . .	3,350,273	801,618	2,548,655	13.48	8.82
Northern . .	2,098,833	463,600	1,635,233	15.91	9.72
N.-Eastern .	3,351,369	754,237	2,597,132	14.88	10.14
N.-Western .	5,373,636	1,141,253	4,232,383	14.92	10.79
Scottish	5,223,489	582,663	4,640,826	*33.02	13.62
Southern..	3,993,614	979,676	3,013,938	13.25	7.42
S.-Western .	808,221	244,502	563,719	10.24	7.32
Western . . .	641,101	105,342	535,759	18.63	8.07
U Kingdom	24,955,502	5,108,004	19,847,498	16.42	9.86

* It should be noted, in reading the above table, that it is the custom for Scottish societies to raise a large proportion of their capital funds as Loans, and this factor causes the Net Surpluses as a percentage of Share Capital to be inflated.

It is interesting to note that the net surplus in relation to share capital was a higher percentage than the percentage for all societies, in the Scottish and Western Sections only; the net surplus in relation to trade, however, was a higher percentage than the percentage for all societies in three sections, viz.: Scottish, North-Western, and North-Eastern Sections.

In order that the position within the sections in 1932 may be compared with the position in 1912, a similar table containing the 1912 figures is given below :—

Section	Net Surplus including Share Interest	Share Interest	Net Surplus after deducting Share Interest	Net Surplus as a Percentage of	
				Share Capital	Sales
	£	£	£	%	%
Irish . . .	38,659	4,435	34,224	31.0	7.2
Midland . .	1,008,344	158,283	850,061	22.1	10.4
Northern . .	1,844,643	209,084	1,635,559	34.3	14.9
†N.-Eastern .	—	—	—	—	—
N.-Western .	4,953,895	613,272	4,340,623	27.0	14.1
Scottish . . .	2,808,797	204,512	2,604,285	50.0	16.1
Southern . .	683,470	119,247	564,223	19.8	8.0
S.-Western .	216,917	44,878	172,039	18.4	8.8
Western . . .	402,697	32,125	370,572	38.7	11.4
U. Kingdom	*11,957,422	*1,385,836	*10,571,586	30.4	13.4

* The slight discrepancy between these figures and the figures for 1912 on the previous page is due to the fact that they are taken from different sources

† Included in North-Western Section up to and including 1923.

It will be observed that in 1912, the Scottish, Western, Northern, and Irish Sections showed a higher percentage of net surplus in relation to share capital than the national average, whilst the Scottish, Northern, and North-Western Sections showed a higher percentage of net surplus in relation to trade than the national average.

Referring back to what was said previously in Chapter IV. on the employment of capital by retail distributive societies in their own businesses, it is interesting to note the figures representing the net surplus as a percentage of the total capital of retail societies. If the capital invested by the retail societies in their own businesses at the end of 1932 is taken as £72.5 millions, the total retail sales for that year as £200.3 millions, and the net surplus after deducting share interest as £19.85 millions, it will be seen that the percentage surplus on the capital invested by the retail societies in their own businesses was 27.4 per cent, on sales it was 9.86 per cent, and on total share capital it was 16.42 per cent. This bears out the statement made previously to the effect that capital employed by societies is more remunerative than capital otherwise invested.

Returning again to the Interim Report of the Survey Committee, it will be found that the report embodies certain causes said to increase the surpluses of co-operative societies as compared with those of proprietary businesses, viz. :—

- "(1) *By a saving of advertisement expenses.*
- (2) *By a saving of high salaries of managers and directors owing to a greater simplicity of management, and the substitution of other rewards such as the respect of the members.*
- (3) *By avoiding bad debts.*
- (4) *By purchasing for ready money and (usually) in large quantities.*
- (5) *By possessing a steady trade (the ordinary competitive business has a more speculative and irregular trade).*
- (6) *By avoiding some of the risks for which the ordinary business house requires to be compensated in the prices charged (e.g., risk of failure.)"*

It is probably true that the points outlined above make for a substantial increase in the surpluses of co-operative trading as compared with other types of trading at the present time, although their importance in this respect may be over-estimated. There is certainly some value in the various suggestions from the co-operative point of view, and some of the points are more fully discussed in Chapter IX. The probability that these advantages may result from co-operative trading methods, however, does not alter the fact that

co-operative surpluses may be regarded as the organiser's surplus which, in other types of business, would be returned to the shareholder on a capital basis.

The co-operative wholesale societies, although operating in a different sphere than the retail co-operative societies, are based on the same principle and function in the same way as the retail societies in regard to distribution of surpluses as dividend on purchases to their society members. After payment of interest at a fixed rate on share capital, the surplus is paid out as dividend, again with the exception of certain allocations made in other directions.

The surpluses of the wholesale societies, however, because of the nature of their wholesale trade, which is conducted on much smaller margins than retail trade, do not represent the same amount per £ of sales as the surpluses of the retail societies. Nevertheless, the question of the surpluses of the wholesale societies is a very important one, for it is from these that a return as dividend on purchases is made to the retail societies. As previously pointed out, this means that if the retail societies invest their surplus capital funds not being used in their own particular businesses, with the wholesale societies, and if they are also loyal traders with the wholesale societies, they assist in employing their own capital. They earn a return to the extent of the fixed rate of interest on their invested capital, and they earn an additional return in the nature of dividend on their purchases, which, in the case of the wholesale societies, as in the case of the retail societies, is the organiser's surplus, and, as such, in any other type of business organisation, would be returned to the shareholders in accordance with their capital holding.

When it is remembered, also, that the surpluses of the wholesale societies include not only the surpluses on their wholesale distributive trade, but also the surpluses from their productive departments, it will be seen how the first principle of the Consumers' Co-operative Movement, of working back through its distributive agencies to the actual manufacturing of the commodities required, is establishing itself, and in so doing is making a dual use of the capital of the consumers. This dual use of the capital of the consumer, in a retail, and a wholesale, and also in a manufacturing sense, brings about two, or even three, different types of saving, and makes possible an added return for the use of capital, although, true to type, the second element in the return is according to purchases and not according to capital holding.

It is, however, logical to expect that the retail societies with the largest capital holding in the wholesale societies, in their own interest, should transact the largest amount of trade with the wholesale societies. Whether they do so or not is another matter.

Having in mind, therefore, the importance of the surpluses of the wholesale societies, the figures in the following tables showing the share capital, amounts paid as interest on share capital, trade, and surplus on trade, of the wholesale societies for selected years are interesting :—

CO-OPERATIVE WHOLESALE SOCIETY.

Year	Share Capital	Interest on Share Capital	Distributive Trade	Net Surplus on Trade
	£	£	£	£
1882.	171,939	Not available	4,038,238	49,658
1892.	523,512	" "	9,300,904	98,532
1902.	1,006,894	48,975	18,397,559	336,369
1912.	1,916,551	98,464	29,732,154	613,007
1922.	5,101,255	275,062	65,904,812	111,268
1923.	5,378,835	263,060	66,205,566	510,978
1924.	5,783,878	278,027	72,888,064	895,773
1925.	6,192,341	301,831	76,585,764	1,053,504
1926.	6,407,876	317,343	75,292,233	1,094,288
1927.	6,751,524	342,687	87,140,870	1,530,969
1928.	7,677,289	371,579	87,735,282	1,379,672
1929.	8,080,497	395,567	90,002,169	1,396,974
1930.	8,515,097	416,050	85,872,099	1,344,218
1931.	9,416,463	453,589	82,066,739	1,692,157
1932.	10,067,465	485,490	83,823,641	1,729,223

SCOTTISH CO-OPERATIVE WHOLESALE SOCIETY.

Year	Share Capital	Interest on Share Capital	Distributive Trade	Net Surplus on Trade
	£	£	£	£
1882.	25,093	Not available	1,100,588	23,219
1892.	129,973	" "	3,104,768	96,027
1902.	285,144	13,923	6,059,119	239,001
1912.	453,276	22,360	8,391,258	301,154
1922.	1,391,543	78,552	16,976,056	211,391
1923.	1,419,606	70,241	17,261,828	239,945
1924.	1,448,364	71,439	17,312,194	305,982
1925.	1,469,082	72,678	17,714,967	337,526
1926.	1,480,180	73,556	16,725,948	347,371
1927.	1,510,038	75,620	17,718,055	471,765
1928.	1,531,270	65,424	15,723,370	408,277
1929.	1,648,565	78,897	18,352,766	465,364
1930.	1,664,881	82,508	17,694,411	413,625
1931.	1,690,683	85,172	16,568,845	471,838
1932.	1,716,252	84,774	16,147,828	397,648

COMBINED FIGURES FOR THE CO-OPERATIVE WHOLE-
SALE SOCIETY AND THE SCOTTISH CO-OPERATIVE
WHOLESALE SOCIETY.

Year	Share Capital	Interest on Share Capital	Distributive Trade	Net Surplus on Trade
	£	£	£	£
1882.. .. .	197,032	Not available	5,138,826	72,877
1892... .. .	653,485	" "	12,405,672	194,559
1902	1,292,038	62,898	24,456,678	575,370
1912.	2,369,827	120,824	38,123,412	824,398
1922.	6,492,798	353,614	82,880,868	322,659
1923.....	6,798,441	333,301	83,467,394	750,923
1924.	7,232,242	349,466	90,200,258	1,201,755
1925	7,661,423	374,509	94,300,731	1,391,030
1926.	7,888,056	390,899	92,018,181	1,441,659
1927	8,261,562	418,307	104,858,925	2,002,734
1928	9,208,559	437,003	103,458,652	1,787,949
1929	9,729,062	474,464	108,354,935	1,862,338
1930	10,179,978	498,558	103,566,510	1,757,843
1931.....	11,107,146	538,761	98,635,584	2,100,995
1932... .. .	11,783,717	570,264	99,971,469	2,126,871

One important point that emerges from a study of the net surpluses of the wholesale societies is connected with the principle embodied in the pre-Rochdale societies of selling at ordinary current market prices and making a surplus, as opposed to the Owenite ideal of not trading for profit at all. It has been observed already that attempts to trade at cost price were the main cause of the failure of the earlier societies, and the system of selling at current price, or slightly below, is unquestionably to be commended. The point, however, is here: if it was so extremely difficult to organise and successfully carry on retail distributive societies, bearing in mind that in retail trade much smaller quantities are handled, and the margin of surplus in the ordinary retail markets is so much wider than in wholesale trade, it would most certainly have been impossible to carry on wholesale trade on the same basis.

It may, therefore, be assumed correctly that it is the present system of selling at current market price and making a surplus, that has made possible the successful establishment and development of the wholesale societies, and has enabled them to pass forward from a purely factor trade to productive and manufacturing spheres.

CHAPTER VII.

DISTRIBUTION OF
CO-OPERATIVE SURPLUSES.(1) GENERAL ALLOCATIONS FROM SURPLUSES OTHER
THAN DIVIDENDS.

The manner in which the surpluses which have been reviewed in the previous chapter are distributed is of vital importance in this study, for it is from these surpluses that dividend on purchases is allocated.

Co-operative surpluses (after payment of interest on share capital) are distributed principally as follows :—(1) Dividend on Purchases ; (2) Bonus on Wages ; (3) Allocations to Reserves ; (4) Grants for Educational Purposes ; (5) Grants to Charities ; also some part of the surplus of each trading period is carried forward to the next trading period. As a result the disposable balance of each trading period is increased by amounts *brought* forward and is reduced by amounts *carried* forward. For that reason the amount of surplus allocated during any one year is never exactly equal to the surplus shown on that year's operations.

The importance of the last four items in the above list must not be overshadowed by the first item ; and although dividend on purchases is the central problem of this book a passing comment is necessary on the other items on the list. As these other items are direct allocations from surpluses it is interesting to note that such allocations only become possible in co-operative societies working on the Rochdale Plan, *i.e.*, selling at current market price and thus creating a surplus. Professor Gide, in his book, "Consumers' Co-operative Societies," raises this point in connection with the amounts allocated by societies for educational work, and reference is made to the same point in the Interim Report of the General Co-operative Survey Committee. The advantage of being in a position to make such allocation is one that is often lost sight of in contrasting the old type of society with the present type.

It is, of course, difficult to measure, with any degree of accuracy the value accruing from all these various allocations ; but it is probably true to say that their value is greater, rather than less, than is often assumed.

The allocation to Reserves is, of course, an allocation that will receive general commendation as being part of a sane business and financial policy. As was pointed out in the last chapter, it is necessary, in this way, to make provision for the replacement of assets used up in the course of business or to meet any losses, known or unknown, which may occur.

The allocation as Bonus to wages represents the amount paid by certain societies to their employees ; it is usually reckoned as a percentage of the net surplus, and distributed according to wages. According to the statistics for 1932, there were 71 retail distributive societies paying bonus on wages in some form or other in that year. It should be mentioned in this connection that such bonus is a purely gratuitous one, intended, in the main, to give to the employees an additional interest in their own particular society ; it is not intended to be in the nature of a crutch for a small wage, for it is probably true to say that the rank-and-file employees of the Consumers' Co-operative Movement are relatively better remunerated than those engaged in other businesses operating in similar trades.

The proportion of co-operative surpluses allocated to educational work within the Movement is, perhaps, one of the most extraordinary features of the Co-operative Movement. From the time of the Rochdale Pioneers, who gave the lead to this work of co-operative education by allocating 2½ per cent of their surpluses to the work, the Movement has continued to set aside a portion of its surpluses for the development and extension of co-operative education. The Rochdale Pioneers, and other of the early societies, commenced their educational work in a time when there was no public education, as such ; and the work of co-operative education, that is, the formation of co-operative character and opinion, has continued and grown apace. During recent years, there has also been considerable development within the Movement in the technical training of the employees. From both sides the results of this widespread educational activity must have had beneficial effects upon the growth and development of the Movement as a whole ; on the one hand, members have been taught to be more loyal in a co-operative sense and to understand more fully the co-operative application of economics, and on the other hand, the employees in both offices and shops have been trained in their work up to the standard demanded by the most modern methods of business practice and efficiency.

Probably the amounts allocated from surpluses by the Co-operative Movement as grants for educational work could, in some cases, be spent better than they sometimes are; but in spite of such criticism it is probably true to say that these amounts have always represented, and do still represent, one of the wisest investments that the Co-operative Movement has seen fit to make.

The remaining item in the list of allocations from surpluses, viz.: Grants to Charities, is one that reflects credit on the Co-operative Movement. The Co-operative Movement in its material successes, must not be allowed to overlook the fact that primarily it is a working-class Movement and has a very definitely humanitarian side to its activities. The benevolence of the Movement is not advertised greatly, but numerous local and national charitable causes are aided.

The following table shows the net surpluses of retail distributive societies for selected years, together with the amounts allocated to the four purposes briefly discussed above:—

Year	Net Surplus	Allocations to Reserves	Bonus on Wages	Grants for Education	Grants for Charities
	£	£	£	£	£
1912 . . .	10,568,265	67,115	42,530	95,300	57,251
1917 .	13,897,846	205,783	53,047	118,572	94,842
1922 .	10,671,230	*261,700	65,992	124,960	96,714
1923 . .	12,628,213	105,162	56,732	129,994	91,097
1924 ..	15,533,607	430,040	57,404	145,968	99,386
1925 ...	16,861,894	549,802	71,605	162,168	81,175
1926 ...	17,133,588	424,696	87,357	180,540	131,359
1927 . . .	19,499,967	750,732	105,163	203,111	96,938
1928 .	20,563,792	870,956	118,200	216,644	97,677
1929 ..	21,608,726	733,482	127,371	231,685	93,732
1930 .	22,114,640	854,128	133,229	244,502	94,306
1931 ..	21,348,269	890,128	136,329	242,895	92,958
1932 . . .	19,487,498	831,934	141,806	231,494	94,530

* Decrease for year.

The allocations, of a similar nature, made by the two primary wholesale societies at the end of 1932 were as follows:—

	Allocations to Reserves	Bonus on Wages	Grants for Education	Grants for Charities
	£	£	£	£
Co-operative Wholesale Society	900,326	—	3,238	8,499
Scottish Co-op. W'sale Society...	64,926	—	—	3,672

It should be mentioned, in reviewing the above allocations, that the Scottish Co-operative Wholesale Society makes a practice of placing to the Reserve Fund an allocation of one halfpenny per £ sales, and this method has undoubtedly considerably strengthened the financial position of the organisation and $1\frac{1}{2}$ per cent of the net surplus is allocated to a special fund to be used for charitable or any other purposes the members may decide.

It is perfectly clear, from the foregoing brief survey of the allocations from net surpluses, other than dividend on purchases, that the adoption of the Rochdale Plan by societies has done much to strengthen their financial stability, and has put them in the position of being able to make very real contributions to their members and employees and the community in general. These additional allocations have their place, and the Movement itself would, undoubtedly, have been poorer had it been based on a system such that the creation of a surplus was a practical impossibility.

(2) DIVIDEND ON PURCHASES.

(a) *In Retail Distributive Societies*: The chief item in the list of allocations has, up to this point in this chapter, been more or less ignored; but it is this item which furnishes the basis of this book, attention must now be turned to it. The previous chapters have shown, by a short review of the accumulation and employment of co-operative capital and of co-operative trade, how co-operative surpluses arise. In the first part of this chapter the smaller allocations from net surpluses have been noticed. The balance of the net surplus remaining after the smaller allocations mentioned, and probably, in some cases, a few other allocations of different types have been made, is *the balance remaining for distribution as dividend on purchases*.

Owing to the difference in the practice of retail societies of which mention has been made previously,* it is, unfortunately, not possible to disclose for each year the *exact* amount allocated as dividend on purchases; but an approximation so close to the actual figure is possible that the difference becomes negligible.

The following example, based on the 1932 figures for retail societies, will show how close the approximate figure is to the actual amount. The difference between the amount of the Balance Disposable brought forward at the commencement of 1932 and the amount carried forward at the end of 1932 is not easily ascertainable and has been ignored in the example on next page 76.

* (e.g. It is not possible to say whether the whole of the amount allocated as Bonus on Wages comes solely out of the declared profits or not, or whether the amount stated includes all bonus paid. In some societies it may be treated as wages).

	1932	£
Net Surplus (including Share Interest).....	...	24,955,502
Less Share Interest .....	...	5,108,004
		19,847,498
Less other allocations—		£
Bonus on Wages .....	...	141,806
Grants for Education .....	...	231,494
Grants for Charities .....	...	94,530
		467,830
		19,379,668
Less increase in Reserve Funds for Year—		
End of 1932	=	£11,383,634
End of 1931	=	10,551,700
		831,934
Net figure remaining available for distribution as		
Dividend .....	...	£18,547,734

For the same year, the total amounts allocated by the retail societies to dividend on purchases and shown by them on their Annual Return to the Co-operative Union amounted to £18,557,272 (an average dividend of 1s. 10d. per £ of sales). It will be seen that the margin of error between the amount arrived at by a process of deduction and the amount officially stated is relatively very small, viz.: £9,538, which is .0045 per cent of the total sales of £201,221,581, or equivalent to .01d. per £ of sales. Working on this basis, therefore, it is interesting to note the figures representing the total net surplus as a percentage of sales compared with the figures representing the total net surplus, after deducting allocations to Reserves, Bonus on Wages, and Educational and Charity Grants, as a percentage of the sales.

The following tables show how the sectional and national figures for retail societies in 1932 were built up on this basis. Table I. shows the allocations for the different Sections; Table II. shows the net surplus less total allocations in the different Sections; Table III. shows the percentages of net surpluses to sales, before and after the allocations.

TABLE I.

Section	Allocations to Reserves	Bonus on Wages	Grants for Education	Grants for Charities
	£	£	£	£
Irish.....	8,947	212	1,773	544
Midland ..	179,561	20,652	33,492	15,123
Northern	69,328	—	9,244	5,423
North-Eastern ..	50,939	3,214	23,839	11,947
North-Western ...	99,074	3,564	54,791	14,851
Scottish	121,078	25,316	29,396	26,396
Southern	223,157	87,350	64,345	13,061
South-Western ..	55,650	1,203	10,369	4,769
Western	24,200	295	4,245	2,416
Total	831,934	141,806	231,494	94,530

TABLE II.

Section	Net Surplus	Total Allocations	Absolute Net Surplus
	£	£	£
Irish.	79,853	11,476	68,377
Midland	2,548,655	248,828	2,299,827
Northern	1,635,233	83,995	1,551,238
North-Eastern ...	2,597,132	89,939	2,507,193
North-Western	4,232,383	172,280	4,060,103
Scottish	4,640,826	202,186	4,438,640
Southern . . .	3,013,938	387,913	2,626,025
South-Western ...	563,719	71,991	491,728
Western	535,759	31,156	504,603
Total ...	19,847,498	1,299,764	18,547,734

TABLE III.

Section	Net Surplus		Net Surplus (after deducting Allocations)	
	Percentage on Sales	Amount per £ of Sales	Percentage on Sales	Amount per £ of Sales
	%		%	
Irish.	4.88	1 1/4 d.	4.18	10 d.
Midland	8.82	1/9	7.98	1/7 1/2
Northern ...	9.72	1/11 1/4	9.23	1/10 1/2
North-Eastern ...	10.14	2/0 1/4	9.79	1/11 1/2
North-Western .	10.79	2/2	10.35	2/1
Scottish ...	13.62	2/8 3/4	13.00	2/7 1/4
Southern	7.42	1/5 1/2	6.46	1/3 1/2
South-Western . .	7.32	1/5 1/2	6.39	1/3 1/2
Western ..	8.07	1/7 1/4	7.61	1/6 1/4
United Kingdom ..	9.86	1/11 1/2	9.21	1/10

It is interesting to note from the foregoing tables (a) the variation in the respective allocations in the different Sections, and (b) the difference per £ of sales between the figures representing the net surplus in the different Sections and the figures representing the absolute net surplus after all allocations except dividend on purchases had been made. The rates of dividend vary considerably, the differences in the rate of net surpluses noticed in the previous chapter being the chief cause of the difference.

It will be recalled that in Chapter III. a quotation from a paper read at the 1903 Congress mentioned rates as high as 6s. 6d. in the £ obtaining in 1901 and 1902. At the present time there is no society

paying such a high rate, the highest rate paid by any society in 1932 was 4s. 6d.—(a small society of 461 members)—and the rates paid by the different societies which are shown as having paid any dividend in 1932 fluctuated between this figure and 3d. in the £. In 1932, 80 societies were shown as having paid no dividend, but they were all small societies, 65 of them having a membership of less than 1,000 members each, and, therefore, their figures do not make any appreciable difference to the total figure.

By taking the total retail distributive societies and analysing them according to the rate of dividend paid, it is possible to show the percentage of the retail membership receiving various rates of dividend. The following table shows these percentages for selected years (the percentages for 1895, 1905, and 1914 are taken from the Interim Report of the General Survey Committee).

Rates	Percentage of total Retail Membership receiving Dividend at the Rates Specified			
	1895	1905	1914	1932*
	%	%	%	%
6d. and under	4	.4	4	1.66
6½d. to 1/-	1.0	1.0	2.6	10.91
1/0½ to 1/6	3.0	4.0	7.3	27.25
1/6½ to 2/-	10.6	15.7	20.0	32.02
2/0½ to 2/6	17.5	17.9	20.0	19.95
2/6½ to 3/-	41.8	36.7	30.2	4.67
3/0½ to 3/6	18.2	14.0	11.5	2.05
3/6½ to 4/-	6.5	8.6	5.3	1.49
4/0½ and over	1.0	1.7	2.7	—
	100.0	100.0	100.0	100.0

* See footnote on next page.

Stated in another way, the following results are shown :—

Rates	Percentage of total Retail Membership receiving Dividend at the Rates Specified			
	1895	1905	1914	1932
	%	%	%	%
2/- and under.....	15.0	24.4	30.3	71.84
2/0½ to 3/-	59.3	53.4	50.2	24.62
3/0½ and over	25.7	22.2	19.5	3.54
	100.0	100.0	100.0	100.0

The percentage of the total retail membership receiving a certain rate of dividend is not the same as the percentage of the total trade receiving that rate of dividend. The following table compares the rates of dividend as a percentage of membership, and as a percentage of trade, for the years 1931 and 1932 :—

Rates	1931		1932	
	% of Membership	% of Trade	% of Membership	% of Trade
6d and under.....	%	%	%	%
6½d. to 1/-.....	2.0	1.8	1.66	1.43
1/0½ to 1/6.....	10.2	7.8	10.91	8.13
1/0½ to 1/6.....	25.5	22.5	27.25	24.45
1/6½ to 2/-.....	30.7	30.5	32.02	31.68
2/0½ to 2/6.....	22.9	25.3	19.95	22.58
2/6½ to 3/-.....	5.0	6.6	4.67	6.25
3/0½ to 3/6.....	2.2	3.2	2.05	2.99
3/6½ to 4/-.....	1.5	2.5	1.49	2.49
*4/0½ and over ...	—	—	—	—
	100.0	100.0	100.0	100.0

* The one small society which paid 4s 6d. dividend in 1932 accounted for .007 per cent of the total membership and .007 per cent of the total trade.

The difference in the percentage of membership and the percentage of trade is caused by the variations in the amounts of average purchases per member in different societies. For example, one society with a membership of 459,645 at the end of 1932 had sales to the value of £10,113,695 for the same year, an average of £22 per member; whereas the average purchases per member for the whole Movement was £29.76 at the end of 1932. The society in question paid dividend at the rate of 1s. in the £, and this fact would weight the percentage in the section "6½ to 1s." in favour of membership. The two following tables show the sectional figures for the different rates of dividend in 1932 on (a) membership, and (b) trade :—

TABLE I.
PERCENTAGE OF MEMBERSHIP.

Section	6d. and under	6½d. to 1/-	1/0½ to 1/6	1/6½ to 2/-	2/0½ to 2/6	2/6½ to 3/-	3/0½ to 3/6	3/6 and over	Total
	%	%	%	%	%	%	%	%	%
Irish.....	14.91	8.0	76.87	.22	—	—	—	—	100
Midland . . .	.74	1.96	44.2	33.13	19.16	.72	.09	—	100
Northern . . .	.07	3.56	8.77	57.03	24.03	6.54	—	—	100
N.-Eastern . .	2.67	—	19.82	45.32	23.30	8.14	.60	.15	100
N.-Western.....	.26	77	13.51	40.22	40.23	4.68	.25	.08	100
Scottish	2.33	16	1.06	21.58	28.73	16.68	16.73	12.73	100
Southern... ..	.69	35.88	51.76	11.23	.26	.18	—	—	100
S.-Western	4.56	15.73	27.97	50.34	.62	.78	—	—	100
Western	12.02	30.53	16.15	25.00	16.30	—	—	—	100
U. Kingdom ..	1.66	10.91	27.25	32.02	19.95	4.67	2.05	1.49	100

TABLE II.
PERCENTAGE OF TRADE.

Section	6d. and under	6½d. to 1/-	1/0¼ to 1/6	1/6¼ to 2/-	2/0¼ to 2/6	2/6¼ to 3/-	3/0¼ to 3/6	Over 3/6	Total
	%	%	%	%	%	%	%	%	%
Irish.....	11.90	6.72	80.83	55	—	—	—	—	100
Midland . . . .	.69	1.54	39.27	34.96	22.61	.79	.14	—	100
Northern	.02	1.92	6.51	57.49	26.01	8.05	—	—	100
N.-Eastern . . .	2.69	—	20.29	39.93	25.00	10.83	.98	.28	100
N.-Western. . .	.36	.55	10.00	38.22	45.12	5.32	.33	.10	100
Scottish	1.43	.09	.79	18.57	29.03	18.57	17.10	14.42	100
Southern . . . .	.59	31.28	54.41	13.28	.38	.06	—	—	100
S.-Western . . .	4.02	12.70	27.39	54.38	.69	.82	—	—	100
Western	10.45	23.51	21.18	29.24	15.62	—	—	—	100
U. Kingdom	1.43	8.13	24.45	31.68	22.58	6.25	2.99	2.49	100

It is again necessary to stress the fact that exact total figures for the amount allocated as dividend within one particular year cannot be given. The foregoing tables have been prepared on the basis of the average rate of dividend per £ of sales for the year, and in working backwards from this average figure, in order to find the total amount, allowance must be made for variations in the rate of dividend from period to period within the year which may slightly vitiate the average and, therefore, cause the total amount to be an approximation only. Nevertheless, the results shown are near enough for all practical purposes and are valuable for purposes of comparison.

Other factors also affect the figures, *e.g.*, sales to non-members (see Chapter XIII.). A small percentage of the trade of the retail societies is with persons who are not members and no dividend, or a lower rate of dividend, is paid on such sales. This, in consequence, tends to increase the figure representing the average trade per member, and will cause the figure representing the average amount of surplus per member to be slightly higher than it actually is if total membership is divided into total trade.

The following comment on trade with non-members extracted from the Memorandum of Evidence submitted to the Committee of Inquiry on Co-operative Societies and Income Tax, 1933, is helpful in this connection:—

“From time to time examination has been made of this position, and it has been discovered that the percentage of trade with non-members is only an infinitesimal part of the operations of societies. In the case of the great bulk of retail co-operative societies it is quite certain that the percentage is less than half of 1 per cent of the total trade, and taking the aggregate

turnover of the whole of the Movement it is clear that the percentage is less than 2 per cent of the whole. Moreover, it must not be forgotten that even in the case of non-members' trade it is, generally speaking, a regular practice to pay a discount upon the purchases of these non-members. By way of illustration of what is stated above, we quote the actual figures of two of the largest societies where the non-members' trade might have been expected to be greatest. In the case of the Royal Arsenal Co-operative Society, the amount of non-members' trade for six months was £8,083, out of a total trade for that period of £3,380,000, or less than .25 per cent of the total. Discounts were paid to non-members on these purchases. In the case of the largest society in Scotland, St. Cuthbert's, Edinburgh, purchases by non-members were £400 out of a total of £2,062,409, or less than .05 per cent. In the case of the Royal Arsenal Co-operative Society, it is significant that even this volume of non-members' trade included goods supplied to members of the society who may be in receipt of poor law out-relief."

It should be noted, however, that the above extract refers only to the trade of retail societies. Sales to non-members in the case of the wholesale societies are a greater proportion of the total wholesale trade, owing to the differences in the nature of the two trades, the wholesale selling a greater proportion outside the Movement. The following reference from the same report mentioned above is interesting :—

"It should be noted that, in the case of the wholesale societies, the non-members' trade arises very largely from the necessary disposal of by-products for which the retail societies afford no outlet. On such trade the total amount of surplus is small, as there may often be losses"

There is one society in which, according to its rules, members are not entitled to receive any dividend on purchases unless they spend up to £6 per quarter with the society. As a matter of fact, the society in question pays to members in this category dividend on purchases at one-half the normal rate (the same treatment being meted out to non-members), but according to its rules, if it wished it need not pay to these members (or non-members) any dividend at all. The same rule and practice in this society also applies to interest on share capital.

Reviewing the tables showing the various rates of dividend paid to a percentage of the membership, it is clear that there is a tendency for the average rates of dividend to move downwards. This is a natural sequence to the fall in the total net surpluses discussed in the previous chapter. In 1914 the highest percentage of the membership was receiving from 2/6½ to 3/- in the £, whereas in 1932 the highest percentage of the membership was receiving from 1/6½ to 2/- in the £. In 1932 the percentage of membership receiving from 1/0½ to 1/6 in the £ was almost four times the percentage receiving those rates in 1914 (1914, 7.3 per cent; 1932, 27.25 per cent), whilst the percentage of membership receiving from 2/6½ to 3/- in the £ had dropped from 30.2 per cent in 1914 to 4.67 per cent in 1932.

The dominant rates of dividend per society in 1932 confirm these conclusions, for the highest number of societies paid from 1/6½ to 2/- in 1932. The dominant rates of dividend for the different sections and the United Kingdom are revealed in the following table, which indicates the number of societies paying the rates stated in 1932 :—

Section	6d. and under	6½d. to 1/-	1/0½ to 1/6	1/6½ to 2/-	2/0½ to 2/6	2/6½ to 3/-	3/0½ to 3/6	Over 3/6	Total
Irish.	16	9	2	1	—	—	—	—	28
Midland	19	6	24	60	28	3	3	—	143
Northern	1	9	15	57	27	7	—	—	116
N-Eastern	10	—	13	37	53	33	10	4	160
N-Western	9	7	21	66	91	18	4	2	218
Scottish	12	2	11	41	76	58	29	5	234
Southern	12	26	59	21	1	1	—	—	120
S-Western	15	21	29	14	2	1	—	—	82
Western	14	20	14	17	5	—	—	—	70
U. Kingdom	108	100	188	314	283	121	46	11	1171

The figures in this table clearly illustrate the fact that the lower rates obtain in the Southern half of the country, the average rates in the Midlands, and the highest rates in the Northern half of the country and in Scotland.

Although the rates of dividend vary from society to society, there is a discernible tendency for the rates of dividend paid by different societies in an area to approximate to one figure. The Survey Committee suggested in the Interim Report that this fact indicated the existence of "competition by dividend": on the other hand, it may be due merely to the fact that societies close together know much better what policy the neighbouring societies are pursuing, also conditions generally in one area are likely to be similar, which will lead to a similarity of policy on the part of the societies operating in that area.

A reduction in the average rates of dividend may also be brought about, in part, by the opening of new departments which, for a period, do not yield such a high rate of surplus on sales as that yielded by some of the older established departments. This fact may, in some instances, cause the societies whose members are accustomed to a high rate of dividend to be reluctant to open new departments because of the adverse effect on the net surplus of the society, whereas societies which have not a high rate of dividend to maintain will not meet with the same difficulty. Attention should be drawn in this connection to the fact that some new departments may not yield the same rate of net surplus on trade as other departments, although they yield the normal rate of net surplus on capital. This is a problem

that is peculiar to the Co-operative Movement with its system of dividend on purchases. The matter is discussed in the next chapter dealing with surplus in relation to trade and capital. Apart from internal factors within the Co-operative Movement which have been making for a reduction in rates of dividend during the last 20 years, it is also undoubtedly true that competition from outside has become much keener during the period. The development of multiple shops and departmental stores, with their cut price policies resulting from their peculiar organisation, has most certainly had its reaction on the policy of co-operative societies. In so far as this competition has led to a tightening of efficiency within the Co-operative Movement and an adjustment of price policy in order to give the consumer immediately the advantages accruing from co-operative trading, the fall in rates of dividend is to be commended rather than deplored.

(b) *In Wholesale Societies*: Like the retail distributive societies, the wholesale societies distribute their surpluses in accordance with purchases. The normal rates of dividend paid are: Co-operative Wholesale Society, 4d. in the £; Scottish Co-operative Wholesale Society, 6d. in the £. (See Chapter XII.).

CHAPTER VIII.

DIVIDEND ON PURCHASES COMPARED WITH
DIVIDEND ON CAPITAL.

The fundamental difference between the co-operative type of organisation and the orthodox type of industrial organisation emerging in the distribution of surpluses according to purchases in co-operative trade, as opposed to distribution of surpluses according to capital in other businesses, is responsible for certain peculiar differences in the economics of the two types of organisation. These economic differences are a direct result of the differences in method, particularly in the method of distributing surpluses, and they are not always clearly recognised by the rank-and-file of the Co-operative Movement, who often apply the ordinary economic tests to the results of co-operative enterprise in spite of the fact that the economic basis of the co-operative organisations has been completely changed from the economic basis of normal organisations by the system of distributing surpluses as dividend on purchases.

(a) General Comparison.

It is in this connection that certain fallacious theories in relation to the dividend question often arise. Co-operative societies conducting trade on the Rochdale Plan sell at current market price in the same way as other outside businesses, but whereas the outside businesses are only concerned with the realisation of a return on capital, co-operative societies are concerned with the realisation of a return on purchases made from them.

The vital difference in the case of co-operative societies lies in the fact that as they increase the amount of their trade they simultaneously increase their liability for the payment of dividend on that trade.

Attention is drawn to this aspect of dividends in the "Handbook for Members of Co-operative Committees," by F. Hall, M.A.; but the whole question is imperfectly understood by the majority of members of co-operative societies. The following example in the above book is reproduced below in order to illustrate clearly the difference between dividend on purchases and dividend on capital, with special reference to the disadvantages imposed on co-operative societies when sales are increased, owing to a reduction in price, whilst the amount of capital employed remains stationary:—

"Suppose, for example, that an article costs 6d. and is sold for 9d. by both a co-operative society and a private trader, and that 1,000 articles a week are sold by each of them. This provides a gross profit of 3d. per

article, or £12 10s. in all. Suppose, now, that the society and the private trader each pays £8 6s. 8d. a week for wages, rent, and all other expenses except interest on capital. This leaves a profit of £4 3s. 4d for each of them, or 1d per article, or 2s. 2½d. per £ of sales. If they both reduce their selling price to 8½d and their gross profit to 2½d per article, and then double their trade, with double the expenses, the total profit would remain the same (£4 3s. 4d). The co-operative society's rate of dividend would fall to 1s. 2d. per £ of sales, because the same profit is spread over an amount almost equal to double the amount of the former sales, but the rate of profit on the capital employed by the private trader would be the same as before, provided no extra capital were employed. This is why it is easier for a private trader than for a co-operative society to maintain his profit and dividend by increasing turnover at a lower price. The following illustration will help to a better understanding of the position:—

First Case:

	£	s.	d.
1,000 articles sell for 9d. each	37	10	0
1,000 articles cost 6d. each.	25	0	0
Gross Surplus	12	10	0
Less Expenses	8	6	8
Net Surplus	£4	3	4

£4 3s. 4d represents 2s. 2½d per £ of sales.

Second Case (where selling price is reduced and sales doubled):

	£	s.	d.
2,000 articles sell for 8½d. each	70	16	8
2,000 articles cost 6d. each.	50	0	0
Gross Surplus	20	16	8
Less Expenses	16	13	4
Net Surplus	£4	3	4

£4 3s. 4d. represents only 1s. 2d. per £ of sales—which is not much more than one-half of the previous rate, but the rate of profit on capital will be the same as in the first case if sales have been doubled without increasing capital."

The above illustration is, of course, a purely hypothetical one, designed to emphasise the position of co-operative societies in regard to their liability for dividend on purchases. In practice the position would, in all probability, be rather more favourable to co-operative societies than the example indicates. For example, it is extremely unlikely that expenses for wages, rent, &c., would exactly double with no increase in capital expenditure, even if quantity sales were doubled, and it is probable that if twice as many articles were sold they could be bought originally at a more advantageous rate. Again, it is only in rare instances that sales can be doubled all round without an additional capital outlay being involved. Nevertheless, the increasing liability for dividend on purchases which accompanies increases in money sales of co-operative businesses is one of the most important economic features of the system. If the amount of capital employed in a business is small, and the sales of the business are large, a small margin of profit per £ of sales will enable a fair profit on capital to be returned. The selling price may be

still further reduced, if the resultant increase in turnover is sufficient to maintain the same amount of profit, without any disadvantage to the ordinary type of business ; but the co-operative business is placed in an unfavourable position in this respect.

The co-operative business is concerned with a dividend on sales, not on capital, and if the price is forced down in order to increase turnover, the liability for dividend increases as the sales increase, in spite of the fact that the normal return on capital is maintained. It is clear, therefore, that co-operative societies in competition with other types of business engaged in the same trade are at a certain disadvantage in this respect. Competition brings down the price and, as a result, the percentage profit on each article sold is reduced ; the sales, however, are increasing, and along with the increase in sales there is the increasing liability for dividend.

Taking all the articles sold in all the different departments of a co-operative society together, it is clear from the features previously discussed that the average rate of net surplus on the whole must be kept sufficiently high to permit of the normal rate of dividend being made. If certain articles are reduced in price as a result of competition and the turnover is thereby increased, there is a lower average net surplus created ; this means that if the average net surplus is to be maintained, the rate of surplus on the other articles must be sufficient to compensate for the reduction.

As a matter of fact, the surplus per £ of sales is not the same in all departments ; there is considerable variation in the average surplus per £ of sales in different departments. This difficulty may be overcome in the ordinary type of business by increasing the rapidity of stock turnover ; the ordinary type of business can maintain the normal rate of surplus on capital in departments making a lower rate of surplus by reducing prices in order to increase the turnover of those departments. The co-operative business, however, is not able to do this with the same results, because of the fact that increased turnover creates an increased liability for dividend on purchases ; in other words, both types of business, by an increase in turnover, may maintain the normal rate of surplus on capital, but the co-operative business is placed in a relatively unfavourable position because it has to look to a rate of surplus on trade rather than on capital.

In the " Handbook for Members of Co-operative Committees " it is stated, in regard to the question of rapidity of stock turnover in relation to surpluses, that stocks in the grocery department should be turned over at least eight to twelve times a year, in the drapery department twice or three times a year, and in the butchery department practically every week. Assuming that the amount of capital employed, and the total net surplus, is the same in all these departments (which is not so in practice) the department with the slowest turnover would have the highest rate of net surplus per £ of sales, *i.e.*, the

drapery department; and the department with the quickest turnover, *i.e.*, the butchery department, would have the smallest rate of net surplus per £ of sales, although the rate of net surplus on the capital employed would be the same for each department. In practice, it is true that the drapery department does, in most cases, show a relatively high rate of net surplus on sales, the butchery department showing a lower rate of net surplus on sales; but in co-operative trade the percentage of the total trade accounted for by the butchery and drapery departments is not great as compared with the percentage represented by the grocery department, and thus the final rate of net surplus for the society as a whole is not seriously affected. Also in the case of co-operative societies the trade of the grocery department is usually regular, and of a fairly high figure, in relation to the amount of capital employed, and thus good results are realised. The profits from the bakery departments in co-operative businesses often increase the profits of the grocery departments with which they are merged.

It would appear, therefore, that co-operative societies striving to maintain a high average rate of net surplus are in a much more difficult position in this respect than co-operative societies which have a much lower average rate of net surplus to maintain. A co-operative society with a high rate of dividend will find it much more difficult to open new departments in trades which do not show immediately a high rate of surplus per £ of sales because the returns of these new departments will tend to reduce the average net surplus for the business as a whole, whereas those societies with a lower rate of dividend will be better able to commence business in such departments because they are not in a position of having to make such a high total net surplus. On the grounds of trade alone, then, the co-operative business is not in a favourable position to compete with a price-cutting policy of outside businesses who are relying on an increased turnover to maintain their normal rate of surplus on capital, particularly if the co-operative society concerned is one that, by tradition, has to maintain a high rate of dividend. The tendency to open new departments which, for a period, are able to earn only a low rate of net surplus, is likely to be greater in societies which have not a high rate of dividend to maintain. The societies with a high rate of dividend will hesitate to open a new department which is likely to bring down the average of net surplus.

There are, however, other factors which enter into the matter, apart from the *prima facie* question of prices. For example, on the one hand, there is a very definite limit to the extent to which prices can be reduced in order to increase turnover and thus maintain the normal rate of surplus on capital, and a limit to the extent to which turnover can be increased without involving additional capital expenditure. On the other hand, there is the advantage arising from the regular trade of a co-operative society brought by

its members, and the desire, in some instances, on the part of the members, to have a high rate of dividend maintained, even though they may be called upon to pay slightly higher prices on articles bought in departments such as those discussed above, which, on account of the nature of their trade, are subject to certain disadvantages in a price-cutting competition. Again, with the increase of productive activities in the Consumers' Co-operative Movement, the surplus arising from production is increased, and is added to the surplus resulting from retail distribution, without the retail sales over which the total surplus is divided necessarily being increased, and this, in effect, cheapens the purchasing price and thus helps to sustain the rate of dividend. The general conclusion regarding the payment of dividend on purchases in co-operative societies as compared with dividend on capital in outside businesses is that, other things being equal, a high rate of dividend will, to some extent, impede the progress of the Co-operative Movement by making it more difficult for the societies paying a high rate of dividend to compete with the price-cutting policy of private traders, and also by causing societies to hesitate to open new departments where the rate of surplus per £ of sales is not as high as that earned by other departments.

If the whole question of the economics of dividend were fully understood, these difficulties would be removed; for in the last analysis the return accruing to the members of co-operative societies is not really reduced or increased by different policies; that is to say, the consumer derives the same final benefit from co-operative trading, either by virtue of a reduced price accompanied by a compensating reduction in the rate of dividend, or by a high rate of dividend. Probably too much stress is laid on the importance of the rate of net surplus on trade; the rate of net surplus on capital is a more equitable guide even in the co-operative type of organisation where the net surplus is distributed according to purchases. The stress laid on the rate of net surplus in proportion to trade is one of the features of a system which has for its ultimate aim the distribution of those surpluses according to trade.

In the language of pure economic theory it is the organiser's surplus which, in co-operative societies, is distributed on the basis of trade, and to attempt to force the issue by creating a high rate of net surplus in proportion to trade by means other than increased efficiency, is not good economics. Keeping strictly to a comparison on capital, it will be seen that the net surpluses of co-operative societies are relatively high.

(b) *Net Surpluses of Retail, and Wholesale, Societies compared in relation to (i.) Trade, and (ii.) Share Capital.*

The actual net surpluses of both retail societies and wholesale societies have already been reviewed in Chapter VII.; but having regard to the present question in this chapter, viz., that of the difference between surpluses in relation to trade and surpluses in

relation to share capital, it is necessary that the figures should again be examined, with special reference to this particular difference. The following table shows the total net surpluses, after deducting share interest, for all the retail distributive societies, as a percentage of trade and as a percentage of share capital, from 1895 to 1932. (For the years 1895 to 1914 the figures have been taken from the Interim Report of the Survey Committee for the years 1915 to 1932 they have been taken from the Co-operative Union Congress Reports) :—

Year	Net Surplus as—		Year	Net Surplus as—	
	% of Trade	% of Share Capital		% of Trade	% of Share Capital
	%	%		%	%
1895	12.6	30.24	1914	13.5	30.12
1896	12.9	30.64	1915.....	12.93	30.74
1897	13.7	33.63	1916	11.86	30.60
1898	13.6	33.25	1917... ..	9.72	28.14
1899	13.9	33.11	1918	9.19	26.40
1900	13.8	33.67	1919	8.90	26.98
1901	14.0	33.63	1920... ..	8.75	29.10
1902	14.0	33.48	1921	6.52	19.05
1903	14.0	33.13	1922	6.29	14.65
1904	14.2	33.44	1923.....	7.63	16.76
1905	13.9	32.64	1924.... ..	8.87	19.36
1906	14.0	32.46	1925... ..	9.18	19.71
1907	14.3	33.53	1926	9.27	19.49
1908	13.7	31.87	1927.....	9.75	21.13
1909	13.7	31.21	1928	9.82	20.70
1910	13.4	30.67	1929... ..	9.96	20.28
1911	13.9	31.14	1930	10.18	19.58
1912	13.4	30.42	1931.	10.27	18.10
1913	13.6	30.48	1932	9.86	16.42

The first comment that is called for by a study of the figures in the above table is with reference to the much higher level obtaining for net surpluses as a percentage of share capital as compared with net surpluses as a percentage of trade, and this fact confirms what has been written in the first part of this chapter with regard to the difficulties which co-operative societies experience at times in maintaining a high rate of surplus on trade, even though their net surplus as a percentage of capital may be higher than the normal rate obtaining in outside businesses.

The rate of net surplus in relation to capital for all the retail distributive co-operative societies is more favourable than the normal rate of net surplus obtaining in many outside businesses. Up to and including the year 1916 this figure was over 30 per cent, from 1916 to 1920 it fluctuated slightly with a downward tendency, dropping sharply in 1921 to 19.05 per cent with a further drop in 1922 to 14.65 per cent, this figure representing the lowest rate of

net surplus on capital in 50 years. In recent years the figure has recovered to a more normal percentage, but from 1926 to 1932 has shown a gradual downward trend.

It is exceedingly interesting to compare these changes with the general economic conditions and fluctuations in the price level, for the reaction of economic conditions is clearly reflected in the figures, *e.g.*, the slump of 1921-22 and the gradual fall in prices during the last few years. Nevertheless, the percentages on capital are very creditable when compared with outside businesses, especially when it is remembered that the net surpluses of the Co-operative Movement do not include share interest which has been allocated before arriving at the figures representing net surpluses in the above table.

The normal rate of share interest in retail distributive co-operative societies up to a few years ago was round about $4\frac{1}{2}$ to 5 per cent. During the last few years, however, the fall in the general rate of interest has affected co-operative societies and an examination of the interest rates on share capital in the average retail distributive co-operative society in January, 1933, leads to the conclusion that it had by then fallen to 4 or $4\frac{1}{4}$ per cent. This percentage representing the share interest must, in the case of co-operative societies, be added to the rate of net surplus on share capital when comparing them with other businesses from the point of view of trading results, and when this is done it will be seen that even in the worst year of the last 40 years, *viz.*, 1922, the figure representing the rate of net surplus on capital for all the retail co-operative societies was approximately 19 per cent, whilst in earlier years it soared to between 34 and 40 per cent.

It is true that certain outside businesses at times yield a much higher return on share capital than is shown by retail distributive co-operative societies, but these are, in the main, isolated instances and the inflated figures are often due to peculiar features of the businesses. In January, 1933, a well-known store announced a final payment of 50 per cent on shares, making 80 per cent for the year, and cases can be quoted of much higher dividends on capital than this in outside businesses; but, generally speaking, the co-operative figures for retail societies are above the average in this respect. A point that perhaps should be mentioned at this juncture in discussing high dividends on capital in a public joint-stock company is that, when dividends are inflated, the market value of the shares is likewise inflated, and the final return to the individual has to be reckoned, not on the nominal value of the shares held, but on the amount paid for them on the share market. It has already been noticed that shares in co-operative societies are mainly withdrawable, and they carry a fixed rate of interest. Because of this they never fluctuate in value.

The figure representing the net surpluses of retail distributive societies as a percentage of their total retail trade has, in the main, during the last 40 years, followed the general fluctuations of the figure representing the net surpluses as a percentage of capital, but on a much lower level. The highest figure was 14.3 per cent in 1907; from 1907 the tendency has been for the figure to move downwards, with a sharp drop in 1921 and 1922, to 6.52 per cent and 6.29 per cent respectively, followed by a recovery to 10.27 per cent in 1931 and a slight setback to 9.86 per cent in 1932. The graph in the appendix illustrates very clearly the way in which the rates of net surplus in relation to trade and in relation to capital have fluctuated, together, during the years 1895 to 1932. The graph also shows the much higher rate of net surplus in relation to capital as compared with the rate of net surplus in relation to trade, emphasising the points brought out in this chapter on the peculiar nature of the co-operative type of organisation with its liability for payment of dividend according to purchases.

The slump years following the war period are clearly evidenced in both lines of the graph, and the effect of falling prices since 1927 is revealed in the line showing net surplus in relation to capital, for expenses have not fallen as rapidly as prices and, therefore, the rate of surplus on capital in consequence tends gradually to decrease.

The difference in the rate of net surplus on trade and on capital which is so marked in the case of the retail distributive co-operative societies is even more marked in the case of the co-operative wholesale societies, probably on account of the difference between retail and wholesale trade in general. In the case of the wholesale societies, however, the difference is not likely to excite so much comment on account of the fact that the wholesale societies are not in the position of having to maintain high average rates of dividend. At the conclusion of the last chapter it was noticed that the Co-operative Wholesale Society paid to its members an average dividend of 4d. in the £ on purchases, and the Scottish Co-operative Wholesale Society 6d. in the £ on purchases.

The following figures show the total net surpluses of the two wholesale societies in relation to distributive trade and share capital for 1932 :—

Society	Total Net Surpluses		
	Amount	% of Trade	% of Share Capital
Co-operative Wholesale Society.....	£ 2,550,628	% 3.04	% 25.33
Scottish Co-operative Wh'sale Society	397,648	2.45	23.17

CHAPTER IX.

COSTS OF CO-OPERATIVE SOCIETIES.

One of the most important questions that has exercised the minds of those interested in the retail distributive trade is the question of to what extent the costs of co-operative societies are pure trading costs, and to what extent the surpluses of co-operative societies arise from ability in management. In other words, it is sometimes debated as to whether co-operative trade is conducted on normal competitive lines, the dividend being the net surplus after interest on share capital has been paid and the other allocations noted in earlier chapters have been made, or whether the usual co-operative policy is to conduct trade in such a manner that a certain rate of dividend is automatically created.

It has been suggested that a regular amount of surplus sufficient to cover the normal rate of dividend is automatically created in co-operative trade by a certain price policy, that is, by selling at such a price as to ensure the regular amount of surplus. It is sometimes argued that the whole of the dividend is actually paid for by the purchaser in higher prices, and that the system of dividend on purchases is nothing more or less than a system of deferred saving. Incidentally, the section of the community which has frequently advanced this latter argument has been more often than not the same section which claimed that co-operative societies were making large profits on which they were not liable to taxation, thus placing them in an advantageous position compared with other businesses. Apart altogether from the co-operative argument that surpluses as a result of mutual trading are not profits, there is clearly an inconsistency in the two former arguments, for if dividend on purchases is paid for in the price and is not a true surplus but merely a deferred saving, the argument to tax the surpluses of co-operative societies is reduced to one that suggests that the deferred savings should be taxed, which is very bad finance.

These questions, however, demand an examination of the trading expenses of co-operative societies and a comparison of them as far as is possible with the trading expenses of other businesses engaged in similar trade, for the rate of expenses in any type of industrial organisation has a very definite bearing on profits or surpluses. Probably no part of the work of comparison between these two different types of organisation is bristling with such difficulties as this section relating to costs; indeed, so great are the difficulties

that it is almost impossible to make any reliable comparison. On the one hand, the difference between retail distributive co-operative societies themselves makes it extremely difficult to state, with any degree of accuracy, what is the normal rate of expenses for all societies; differences in practice and method, differences in size, differences in the areas in which they operate, are all factors which enter into the question, and, consequently, total figures for the whole Movement are apt to be very misleading when taken as a gauge to measure the position of any one separate society. On the other hand, it is most difficult to obtain information in regard to the costs or expenses of private traders, multiple shops, or departmental stores. In the case of the private trader the facts are sometimes not known, and in any case there is a general reluctance on the part of outside businesses to reveal the details of their working expenses. This means that the available information about costs of outside businesses is exceedingly scanty, added to which there is a doubt about how far the information available is full and accurate and reliable information.

In spite of the almost insurmountable difficulties, however, in the way of making particular comparisons between co-operative costs and the costs of other businesses operating in a similar type of trade, it is desirable that a general discussion on the question should find a place in this work on dividend. Within any particular retail trade the rate of gross surplus will depend on a variety of considerations. One of the most important of these considerations is that of buying. The method of buying open to retail distributive co-operative societies through the medium of the wholesale societies, which themselves undertake production, gives a decided advantage to co-operative trade, for it is possible to secure by this means especially favourable terms by buying on the largest possible scale. Another factor affecting the rate of gross surplus is the class of trade done, higher priced articles and luxury goods yielding, in the main, a larger gross surplus to the retail trader than lower priced goods.

So far as the question of working expenses is concerned, it is safe to assume that the difference between profit and turnover in shops of a similar capacity and kind is due to (a) location, and (b) management. To make any direct and detailed comparison between two shops it would be necessary for both to be situated in the same locality, to be of exactly the same kind, and to be of a similar capacity; working expenses would then be in each case under the direct influence of management and method.

By working expenses is meant all the expenses incurred in carrying on the trading operations of a business, *e.g.*, wages and salaries, credit, delivery services, advertising, and general overhead expenses. It is desirable to survey these different items one by one in relation to retail co-operative trade, and to comment on their comparative

proportions, as far as possible, in the working expenses of businesses other than co-operative businesses. Some of the most important items in the list of working expenses* in the retail distributive trade are (a) Wages and Salaries, (b) Establishment Charges, (c) Delivery Expenses, (d) Advertising, and (e) Credit. These different items will be taken seriatim :—

(a) *Wages and Salaries.*

Wages and salaries constitute the biggest single item of expense in the list of working expenses of co-operative societies, and because of that they are of very great importance. Fortunately, the published statistics of the Co-operative Union furnish accurate information of the wages and salaries paid in the Co-operative Movement for both (a) distributive, and (b) productive and service departments. It is hardly possible to bring the wages and salaries of productive and service departments into this discussion, but it should be noted that the productive activities are one of the special features of the Co-operative Movement which make a comparison of co-operative methods and ordinary trading methods very difficult. The wages paid in the distributive departments do provide, however, a very valuable basis for discussion, and the amount of wages paid provides, up to a point, a useful and interesting comparison. The following table shows the average sales per employee, the wages cost of distribution, and the average wage per distributive employee in retail distributive co-operative societies for selected years :—

Year	Sales per Distributive Employee	Wages cost of Distribution per £ of Sales	Average Wage per Distributive Employee
	£		£
1900.....	1,226	10½d.	51 8½
1905.....	1,147	11½d.	56 16
1910.....	1,116	1/0	56 43
1914.....	1,141	1/0½	59 74
1919.....	2,011	1/0½	107 15
1920.....	2,448	1/2	142 35
1921.....	2,196	1/5½	157 59
1922.....	1,741	1/7	138 90
1923.....	1,690	1/6½	130 06
1924.....	1,755	1/5½	127 93
1925.....	1,875	1/4	125 45
1926.....	1,821	1/4½	125 09
1927.....	1,819	1/4½	124 56
1928.....	1,773	1/4½	125 29
1929.....	1,737	1/4½	126 53
1930.....	1,729	1/4½	127 17
1931.....	1,662	1/6½	128 42
1932.....	1,580	1/7	129 42

*Probably the best available survey of working expenses in the Co-operative Movement is embodied in the Co-operative Union's pamphlet, "Departmental Trade and Working Expenses," by F. Hall, M.A.

In reading the above table the upward trend of the figures representing the wages cost of distribution since 1914 is very obvious; the chief cause of the increase is the increase in prices and wages that has taken place in the period under review. Other factors are the reduction in the number of working hours per week, and the development of the practice of canvassing for orders and delivery of goods to purchasers.

Unfortunately, the general wages cost of distribution, although useful, is not as useful for comparison purposes as the departmental figures, for the wages cost of distribution in different departments differs considerably according to the nature of the particular department. An investigation of the figures for the different departments in retail distributive co-operative societies organising such departments reveals the fact that in order of magnitude the wages cost of distribution ranges as follows :—(1) Chemists; (2) Greengrocery and Fish; (3) Coal; (4) Drapery; (5) Butchery; (6) Boot and Shoe; (7) Tailoring and Outfitting; (8) Grocery.

This list should be read in conjunction with the table in Chapter V., "Co-operative Trade," in which the figures for departmental trade in retail societies are given. The fact that more than 50 per cent of the total trade is transacted in the grocery department, the department showing the lowest wages cost per £ of sales, is of importance. The regular and heavy turnover of that particular department will tend to keep down the general wages cost per £ of sales, but, on the other hand, the fact that the wages costs are higher in some of the other departments may account, in part, for the co-operative trade in those departments tending to lag behind somewhat. The trade of these other departments, and the expenses of these departments, has, in recent years, been receiving the attention of the Movement. One of the reasons for the predominance of the trade of the grocery department, both in retail and wholesale co-operative societies, is undoubtedly the fact that the grocery trade is the oldest, whilst some of the other departments are of much more recent development within the Movement.

The very recent fall in the level of prices has caused wages costs per £ of sales in the Co-operative Movement to increase, for wages have not moved downwards as rapidly as prices, although there is a tendency for wages to move downwards at the present moment. The amount of wages per employee paid in the Co-operative Movement will tend to be higher than the wages per employee in outside businesses. (See Chapter VI.). The Co-operative Movement prides itself on its conditions of employment and rates of wages paid, in addition to which the rank-and-file co-operative employees have an efficient trade union backing (National Union of Distributive and Allied Workers).* The Ministry of Labour Report on an Inquiry

* Other trade unions for distributive and clerical and general workers also have members engaged in Co-operative Service

into the Rates of Wages, Hours, and Degree of Industrial Organisation in the Wholesale and Retail Grocery and Provisions Trade in England and Wales, 1926, showed that in the retail trade 84 per cent of co-operative workers were organised against 1.9 per cent of other workers ; in the wholesale trade 94.6 per cent of co-operative workers were organised as against 4.4 per cent of other workers ; taking both wholesale and retail trades together, 84.6 per cent of co-operative workers were organised as against 2.4 per cent of other workers.

This preponderance of organised trade union labour within the Co-operative Movement will naturally result in a higher average wage rate and a lower average of hours of labour per co-operative employee as compared with other workers. Spasmodic evidence collected in relation to rates of wages and hours of labour indicates clearly that conditions in the Co-operative Movement tend to be better in these respects than in other organisations ; individual instances confirm the general trend. With these facts in mind it will be evident that the management of a co-operative society will not find it as easy to bring down wages on the slightest provocation as will the management of multiple shops or departmental stores, or even proprietary businesses. The wages costs of co-operative societies may be, in some cases, higher, and in some cases, lower, than the wages costs of other businesses, and, indeed, comparison is almost impossible. A factor making for a lowering of the wages costs of co-operative societies is the fairly high average sales per employee ; one of the features of co-operative trade, particularly in foodstuffs departments, being the steady nature of the demand which enables exact anticipation and an elimination of waste.

The reduction in prices during the last few years which has adversely affected the wages costs in co-operative societies has likewise affected other businesses.

(b) *Establishment Charges.*

In reviewing the various charges to which any business is liable, some mention must be made of the capital cost of the buildings in which the business is housed, the cost of the land on which they are built, and the cost of machinery, fixtures, and other equipment necessary for the carrying on of the business. If the premises are rented, the rent becomes a direct charge on the business ; likewise, if premises are the property of the concern, the capital expended on the buildings and equipment should be charged with interest ; this interest so charged may be merely a book-keeping matter, nevertheless, within a particular business, it is necessary, if affairs are to be equitably conducted, that each department and shop should be charged with the use of the capital its existence necessitates. Amongst the retail shops of the Co-operative Movement will be found

shops of almost every age, size, and style, ranging from the old-fashioned village store, with a capital charge that is almost negligible, to the most up-to-date city emporium on which the capital charges are very heavy; in some cases both extremes are found within the same society.

It is, therefore, impossible either to compare society with society in regard to establishment charges in general, or to compare societies with outside businesses in this respect. Recognising the limited value of the figure in this connection, it will be remembered that in Chapter IV., dealing with the employment of capital in retail distributive societies, it was seen that the capital employed in land, buildings, and fixtures used in trade was 24.37 per cent of the total assets at the end of 1932; the amount represented by this item was 20 per cent of the total retail sales for 1932. Linked up with the question of establishment charges is the question of upkeep, renovation, depreciation, &c. The charges for upkeep and renovations of premises in the Co-operative Movement are likely to vary within certain limits, much in the same way as they will vary in other businesses. The charges for depreciation in co-operative societies generally have been fairly liberal: the policy of adequately depreciating assets has been recognised as being the wisest policy in the long period.

(c) *Delivery Expenses.*

Another factor affecting the working expenses of retail co-operative businesses is that of delivery expenses. This item is one that is closely connected with wages and salaries for, as was noticed under that heading, the growth of delivery services during recent years had tended to increase the wages costs. Co-operative societies have, to a great extent, developed their delivery services, and in most cases the delivery is free in that it is not charged directly. The additional expense incurred by delivery is, however, a burden that cannot be said to stand alone; it is offset by the additional trade that it brings, for an efficient delivery service is one of the major attractions of any retail business; it is a service that is directed solely to the convenience of the purchaser and, as such, should be paid for indirectly, if not directly. The slight reduction in surpluses due to the increase in real delivery expenses is one that is well merited on account of the contra effect.

One of the most striking features of co-operative development during the last 20 or 30 years has been the flow into the ranks of the retail membership of a slightly higher class of members. Formerly the type of co-operative member was ordinary working class; but of recent years people drawn from a slightly higher class, that is the lower middle-class type of people, including a big proportion of professional workers, have joined the local co-operative societies in increasing numbers. This new feature of co-operative membership

has, no doubt, provided something of the urge that has led to an increase of delivery services in societies, for the better the class of people the greater will be the demand for house-to-house delivery of goods in order to obviate the drudgery of shopping. Furthermore, the better class of member will, in most cases, live in a more residential type of neighbourhood farther removed from the nearest shop, and this fact will increase the necessity for an adequate delivery service. Compared with other businesses, it is probable that the delivery expenses of co-operative societies tend to be higher, although other businesses have likewise done much to increase their services in this direction. Probably it would be true to say that there is a greater number of outside businesses with a lower rate of delivery expenses than that obtaining in the majority of typical retail distributive co-operative societies. Here again, however, direct comparisons are impossible on account of the great variety in the size and diversity of service in co-operative societies and the many different types of businesses amongst those other than co-operative.

Expert opinion with regard to the future of delivery seems to be divided. There is, on the one hand, a strong opinion that the order and delivery business will tend to increase until most goods are supplied on this basis, whilst on the other hand, there is the opinion that the near future will see a return to the shopping habit on more modern lines than formerly. Even if the latter suggestion proves to be correct, however, it is unlikely that the modern shopper will carry the purchases home, so that it is probable that delivery expenses will not only remain a feature of retail trade, but will tend also to grow in amount.

(d) *Advertising.*

It is generally assumed that the co-operative societies spend considerably less on advertising than any other types of business, and this assumption is probably true. Reference has been made previously to a clause in the Interim Report of the Survey Committee which stated that "A saving in advertising expenses" was one of the causes affecting the surpluses of the Co-operative Movement. Certainly, compared with other businesses, the expenses of co-operative societies in this respect are very much less. There are a great number of small co-operative societies that do practically no advertising at all in the sense in which advertising is understood in the world of modern commerce; and some societies of a very considerable size have an advertisement account of only a few pounds per week. Probably some of the more keenly managed city societies do much more advertising, and account must be taken of the advertising done for the Movement by the wholesale societies; but even then the amount of advertising done by them cannot be compared with the advertising policy of some of the large retail businesses outside the Co-operative Movement, or more particularly with the departmental stores.

It has been suggested that the Co-operative Movement has not fully realised the value of advertising. On the other hand, it is claimed that because of its peculiar type of organisation there is not the necessity for the Co-operative Movement to adopt the ordinary methods of advertising. The true explanation is probably that the advertising done by the Co-operative Movement is, in the main, of an entirely different nature from the advertising of the ordinary business. The latter is chiefly concerned with advertising primarily for trade, whilst the Co-operative Movement is concerned with advertising primarily for members. The acquisition of new members is likely to be of much more permanent benefit to co-operative societies than the obtaining of new customers in a casual sense, and a considerable amount of propaganda work and publicity work is carried on within the Co-operative Movement with this end in view. Certainly there is a need for advertising co-operative goods, over and above the task of extending co-operative membership; but here again the work of co-operative propaganda, and, more important still, co-operative education, is carried on extensively within the Movement. The link of membership strengthens the desire to purchase at the co-operative society, and makes the work of advertising within the Co-operative Movement much less necessary than in other businesses.

Not least amongst the attractions of co-operative membership and co-operative trade is the system of dividend on purchases. In some respects this may be said to be the greatest advertisement of the Co-operative Movement.

(e) *Credit.*

Working expenses are adversely affected by the system of allowing credit: the giving of credit increases expenses by the loss of interest on that amount of capital which is outstanding in the form of debts. The giving of credit also carries with it other disadvantages such as the increasing of the liability of loss from bad debts and the cost of recording and collecting the debts.

Having in mind the unsuccessful earlier attempts at co-operative trading, the Rochdale Pioneers in 1844 set their faces against the giving of credit. It was well that they did so, for the granting of credit and subsequent losses had been one of the chief causes of failure of the societies that preceded theirs. In principle the Co-operative Movement, from that time, has always been against the giving of credit, but the practice of allowing credit is growing. It may be that the changing nature of membership of recent years is responsible for the growth of credit, a certain type of member preferring a periodic settlement of accounts rather than a purely cash transaction. Again, the Co-operative Movement may retain trade which, in some instances, it would lose, if short credit were not allowed. The pros and cons

of the question require careful consideration; but it is certain, in any case, that the granting of credit is a privilege which requires careful and expert handling in order to see that it is not carried on to the detriment of the business or abused in any way. The following table shows the net amount of debts, average debt per member, and the interest cost of debts in retail distributive co-operative societies for selected years :—

Year	Net Amount of Debts at end of Year	Average Debt per Member	% of Debts to Total Trade for Year	Interest cost per £ of Total Trade*
	(Thousands £s)	£	%	d
1914.	1,139	0.43	1.50	0.18
1919.	1,745	0.42	0.88	0.11
1920.	2,310	0.51	0.91	0.119
1921.	3,440	0.76	1.57	0.19
1922.	2,946	0.65	1.74	0.21
1923.	2,828	0.62	1.71	0.21
1924.	2,800	0.60	1.60	0.19
1925.	3,159	0.64	1.72	0.21
1926.	4,131	0.80	2.23	0.27
1927.	4,533	0.81	2.27	0.27
1928.	4,908	0.84	2.34	0.28
1929.	5,209	0.84	2.40	0.29
1930.	5,306	0.83	2.44	0.29
1931.	5,294	0.80	2.55	0.30
1932.	5,325	0.71	2.65	0.31

* Estimated at 5 per cent.

During recent years there has been a considerable increase in hire-purchase trading in the Co-operative Movement, and the hire-purchase accounts owing by members are included in the figures in the above table. The following statement shows the development during the five years from 1927 to 1932 in relation to total debts :—

	1927	1932
	£	£
Accounts owing by Members for Goods	3,612,358 ...	3,522,272
Accounts owing by Members—Hire		
Purchase	1,513,000 ..	2,690,221
	5,125,358 ..	6,212,493
Less Reserve	592,306 ...	887,425
Net Figure	£4,533,052 ...	£5,325,068

It should be noted that in the case of the hire-purchase system the charges include interest on the instalment amounts outstanding.

The practice of co-operative societies varies considerably so far as the allowance of credit is concerned. Some societies do not allow credit in any circumstances, whilst some societies allow credit within certain limits. An important point to notice in connection with co-operative trade is that it is always possible for the society granting credit to safeguard itself against loss by allowing credit only up to a fixed percentage of the capital holding of the member, or, as is done in some cases, by the reducing of share interest in accordance with the amount of credit taken.

It is impossible to compare adequately the co-operative type of business with its system of no credit or of controlled credit with other types of business. Credit may be allowed in different ways and subject to various influences by the private trader without any attempt being made at a system. Certain large businesses will trade on a cash basis only, whereas other large businesses advertise the credit facilities allowed by them as an inducement to trade, and make credit a special feature of their particular business.

SUMMARY.

It will be observed that throughout this survey of the costs of co-operative societies it has been found impossible to compare, in detail, item by item, the costs of co-operative societies and the costs of other similar businesses, the conclusions arrived at are merely a list of generalisations that in any particular instance may be completely offset by special circumstances. This is in spite of strenuous efforts which have been made in order to arrive at a precise basis of comparison. Summarising the items in the following way will give a more concise view of the position :—

- (a) *Wages and Salaries*.—Better average wages per employee in the Co-operative Movement tend to raise the wages costs compared with other businesses, but the regular trade of the Movement tends to increase the amount of sales per employee and thus bring down the wages cost,
- (b) *Establishment Charges*.—The great diversity of types of business both within the Co-operative Movement and within outside businesses makes a general comparison absolutely impossible;
- (c) *Delivery Expenses*.—Comparatively high within the Co-operative Movement, but of great value in rendering a service to the members. An example of an indirect benefit as opposed to a direct benefit,
- (d) *Advertisement Expenses*.—The *prima facie* case is very definitely in favour of the co-operative societies.
- (e) *Credit*.—The practice growing in the Co-operative Movement, but mostly under controlled and protected systems. Comparison with other businesses interfered with by the great variety of practices.

Other general working expenses in addition to the foregoing are likely to be subject to the same variations within limits, either inside or outside the Co-operative Movement. The fact that no common ground for comparison can be found for any of the chief items in the list of working expenses is significant in itself. The Co-operative Movement is representative of a totally different kind of business organisation from the orthodox type, and whilst there are no excessive differences in any single item of working expenses in co-operative businesses as compared with other businesses, there are, at the same time, factors tending to increase, and factors tending to decrease, the proportion of each of the respective items in co-operative businesses; the nature of the expense is slightly different in the two different types of business.

The absence of any excessive difference between the costs of the two different types of business, after allowing for their fundamental difference in nature, leads to the conclusion that co-operative surpluses are as much the rent of ability in method and management as are the profits of other businesses. If the co-operative type of organisation has other advantages not possessed by outside businesses, the reward accruing as a result of those advantages must go to the member in his capacity as entrepreneur.

CHAPTER X.

DIVIDEND AND PRICES.

The affairs of the world have moved rapidly since the days of exchange and barter. The introduction of "a common third" in the shape of money has caused conditions to become much more complicated and bewildering. Prices have become all important; every highly industrialised country of the world is at the mercy of prices, prices are used as the measure of commercial prosperity; prices in some cases have become a menace. In these days there may be said to be a science of prices; the manipulation of prices is a matter for the expert. Just in the same way that prices dominate international affairs, so they dominate business within the State. The movement of retail and wholesale prices has become as important to the well-being of the community as the movement of mercury within the instruments of physical science, which register minute changes in natural conditions. Every factor, therefore, which has the slightest influence on prices is a matter of importance, both to the group and to the individual within the group. Prices dominate the sphere of industry and commerce; prices, and changes of prices, have their reaction in the narrowest domestic circle. It is on this account, therefore, and because of the common interest in prices, that keen discussion is constantly taking place with regard to prices in business in general, and in the co-operative type of organisation in particular.

Individuals who are members of a retail distributive co-operative society, and who purchase goods from their society, receive periodically a return of a portion of the trading surpluses of their society, divided amongst them in proportion to their purchases. Without pausing to consider the structure of the co-operative type of organisation, the uninformed mind concludes that this dividend is directly the result of prices, that is to say that a sufficiently higher price has been charged by the co-operative society, over and above the price of any ordinary trader, in order to make possible the realisation of a total surplus by the society, and the return to the individual members of the exact amount of dividend which is received. In the previous chapter the effect of working expenses on prices was discussed, and although it was found impossible to compare adequately the costs of co-operative businesses with the costs of other types of business operating in the same trade, it was observed that there were factors moving at one and the same time both for and against the two kinds of organisation, the efficiency of each unit being largely determined by the quality of management.

It has at times been suggested that in the past co-operative societies have been badly managed. No doubt there are many instances which can be brought to light to evidence the truth of such a statement, but it is probably equally true to say that, in the main, the management of co-operative societies in past years has been no worse, and no better, than the management of many other businesses.

It is also beyond question that the day of inefficient management in the Co-operative Movement is rapidly passing, the Co-operative Movement is training its own business and executive heads. It is probably true that the management of co-operative societies may not, in many cases, be as harsh as the management of some other businesses, but whilst harshness may result in a reduction of expenses in the short period, it is a debatable point as to whether any ultimate advantage is gained by it in the long period. The better service resulting from better conditions and better treatment is an advantage which is presently being discerned very clearly by all efficient organisers of businesses. If prices within the Co-operative Movement are manipulated, they are not manipulated with a view of cloaking inefficient management, they are manipulated in accordance with the present-day science of prices. There is a relationship existing between dividend and prices, there must be, but the realisation of a surplus in co-operative trade is not necessarily the result of charging higher prices than the current market prices. It is the purpose of this chapter to discuss prices and dividends, and also the relationship between high prices and high dividends and low prices and low dividends.

Any manipulation of prices within the Co-operative Movement is no more nor less than the manipulation of prices which goes on in other businesses. The special features of the Co-operative Movement must, however, be taken into consideration at this point; the Co-operative Movement has to fulfil its function in meeting the demands of its members in a trading sense, and it also has to fulfil its function as a means of saving and a depository for those savings of its members. In those societies where prices have been high and dividends high, it is fairly clear that the stress has been laid on the latter of these two functions, but it is a moot point as to whether or not such a policy has been to the greatest benefit of the greatest number. Like any other trading organisation, or indeed, much more so, the Co-operative Movement has a duty towards the consumer whose demands it sets itself out to satisfy, and the danger of a co-operative society raising prices at all is that the prices of other traders in the same locality will also tend to rise, although in practice there may be an attempt at keeping the outside prices just slightly below the prices of the co-operative society. This is probably so in those districts where the local co-operative society has become very strong and is able to dominate the prices of the district by virtue of the fact that it is the biggest single unit in the retail distributive trade in that district. If prices are raised in general out of all proportion, the subsequent concerted action on the part of the

consumers, will, of course, move against those higher prices. Even a monopoly in any one trade cannot ignore for an indefinite period the rights of the consumer. In the Co-operative Movement, however, the saving function operative through the accumulation of dividend on purchases will tend to stave off, for a longer period, any reaction against higher prices, and, therefore, a co-operative society can, if it wishes, maintain a slightly higher price level than its competitors, and, at the same time, maintain at least its normal trade for a fairly long period. For a co-operative society to pursue such a policy is definitely bad for two main reasons, viz :—

- (a) Because of the tendency mentioned above for the traders in the locality to likewise raise their prices to a point just slightly below the prices of the co-operative society (any increased profits accruing to the private trader being taken by capital, whereas in the co-operative society they are returned to the purchaser) which, undoubtedly, will cause the general consumer to suffer ; and
- (b) Because the co-operative type of organisation was definitely established to relieve the poorer classes of consumers, and poorer people, especially families on the poverty line, or just above it, will find their needs unmet in the short period by the very type of organisation established to help them, if the prices at the local co-operative society are raised beyond their reach.

Over the long period, however, and in most instances, the Co-operative Movement has pursued a general policy which has been to the benefit of the consumer as a whole. The reports of a number of Royal Commissions and Committees reveal the fact that the Co-operative Movement has proved a valuable competitive check upon a rise of prices at times when there has been a real danger that the consumer might be exploited by combination among large traders in a particular trade. This is to the credit of the Co-operative Movement, and is a vindication of the Co-operative Movement and its general price policy against the sometime attacks of a section of the popular Press. Another point which should be taken into consideration in discussing prices within the Co-operative Movement and prices of similar commodities in other types of business is that just as there was a great difficulty in comparing working expenses of the two different types of business, so there is the same difficulty in comparing prices. Prices vary slightly in different localities, and according to the type of purchaser ; again the question of quality has a close relationship to prices. On the whole co-operative societies have maintained a good quality of article ; indeed, the supplying of good, unadulterated food was one of the objects which brought the Co-operative Movement into being, and whatever criticism is levelled at the Movement, the complaint of poor quality is rarely, if ever, heard. This fact is very important, particularly when it is coupled with the statement that most of the goods supplied by co-operative societies are manufactured under working conditions

Pursuing the question of the two different policies operative in retail distributive co-operative societies, viz., high dividend and high prices, or low dividend and low prices, and inquiring as to which particular policy is the most advantageous, a general impression can be obtained by taking the figures for the different geographical Sections of the Co-operative Movement and ranking the section in order of the highest amount of dividend per £ of purchases, showing how the average trade per member and the average capital holding per member compare with it. This method was adopted in the Co-operative Union pamphlet, "Co-operative Capital," by F. Hall, issued in 1920. The pamphlet showed the figures for 1912, and the figures for that year, together with the figures for 1932, are given below:—

1912

Sections arranged in order according to:—

Average Dividend per £ of Sales	*Average Capital per Member	Average Sales per Member
s. d.	£	£
1. Scottish ... 3 2½	1. Scottish 17 80	1. Scottish 38 50
2. Northern . . . 3 0½	2. Northern 16 97	2. Western 35 24
3. N.-Western . . . 2 10½	3. N.-Western . . 16 82	3. Northern . . . 33 96
4. Western 2 3½	4. Western 13 49	4. Irish 29 53
5. Midland 2 0½	5. Midland 13 11	5. N.-Western . . . 27 93
6. S.-Western . . . 1 8¾	6. S.-Western . . 11 00	6. Midland 23 19
7. Southern 1 6	7. Southern . . . 10 41	7. Southern 20 95
8. Irish 1 5	8. Irish 8 28	8. S.-Western . . . 18 25
Whole Movement 2 8	Whole Movement £15 36	Whole Movement £28.66

* Capital.—Includes Share Capital, Loans, and Reserves.

1932

Sections arranged in order according to:—

Average Dividend per £ of Sales	*Average Capital per Member	Average Sales per Member
s. d.	£	£
1. Scottish 2 7½	1. N.-Western . . 27.01	1. Scottish 44.23
2. N.-Western . . . 2 1	2. Scottish 26.07	2. Western 32.00
† 3. N.-Eastern . . . 1 11½	3. Midland 24 81	3. Midland 29.44
4. Northern 1 10½	4. S.-Western . . . 23.87	4. Northern 28 93
5. Midland 1 7	5. N.-Eastern . . . 23 56	5. N.-Western 28.76
6. Western 1 6½	6. Northern 22 87	6. N.-Eastern 28 41
7. Southern 1 3½	7. Irish 21 05	7. Irish 27.28
8. S.-Western . . . 1 3½	8. Western 20 03	8. Southern 25.56
9. Irish 0 10	9. Southern 18 80	9. S.-Western 25.27
Whole Movement 1 10	Whole Movement £23 43	Whole Movement £29.76

* Capital:—Includes Share Capital, Loans, and Reserves.

† The North-Eastern Section was formed in 1923 by dividing the former North-Western Section.

The figures in the earlier table were taken as a clear indication that the rate of dividend is an influential factor in the accumulation of capital, for in the table showing the position in 1912, the sections paying the highest rate of dividend had the highest average capital holding per member. The Section paying the highest rate of dividend also had the highest trade per member in 1912, but the figures for the other sections did not remain parallel in this respect.

In 1932 the position was not quite the same; the Scottish Section, still paying the highest average rate of dividend, had fallen to second place in the column representing average capital per member, being replaced by the North-Western Section, which had a more moderate rate of dividend. The Scottish Section, however, had maintained its position at the head of the column for average trade per member. The Northern Section, which, in 1912, was second in the list showing the average capital, had fallen to sixth place in 1932, but the Northern Section furnishes an example of an area that has been greatly affected by unemployment and the general industrial depression. Other Sections, however, with a more moderate average rate of dividend, have moved up the list.

The general position seems to indicate that whereas formerly the payment of a high rate of dividend caused capital to accumulate more quickly, and that the sections with a high average of dividend tended to show the highest average capital per member, this factor is not so important to-day as it formerly was. In other words, in the long period, the relationship between a high rate of dividend and a high average capital holding is not so close, for, in 1932, Sections with a lower average rate of dividend had moved up the list showing the average capital per member.

It is significant to note, however, that both in 1912 and 1932, although the average rate of dividend in all the Sections had fallen considerably in the 20 years, that it is possible to draw a geographical line across the country and that the Sections in the Northern half all show the highest average rates of dividend, the Midland Section coming next, with the Sections in the Southern half all showing a lower average rate of dividend.

Assuming for the moment that, other things being equal, the societies paying the highest rates of dividend have the highest price policy, it is interesting to note how this policy affects capital accumulation, for the accumulation of capital has always been a prominent feature of co-operative policy. The relationship between the average rate of dividend and the average trade per member is of equal importance. Taking the Scottish Section as an example, it would appear that the high average rate of dividend was the cause of higher sales per member, but this is not borne out by the position of the other sections either in 1912 or in 1932. The Western Section, which was the fourth down the list showing average dividend in 1912, and the sixth in 1932, was, in both cases, the second highest

for average trade per member. This, and the position of the other sections in the related lists, appears to indicate that there is no real connection between a high rate of dividend and a high average of sales per member.

It should also be remembered that, continuing the assumption of other things being equal, the society with the highest rate of dividend will probably have a higher price policy; the money sales in such a society will tend to be higher for the same quantity of goods, thus raising the average money sales per member. A society with a rate of dividend of 3s. 6d. in the £, compared with a society that has a rate of dividend of 1s. in the £, will show a much higher average figure of money sales, if the higher rate of dividend is the direct result of higher prices.

The general conclusion, therefore, seems to be that a high price policy leading to a high rate of dividend has not the same influence on capital accumulation as it was formerly thought to have, and the relationship between such a policy and average trade per member is not as close as it formerly was thought to be. The lower average trade per member in the Southern societies is not so much the result of a lower dividend policy as a result of the fact that the societies in the South have in recent years developed more rapidly than the Northern societies, and the constant increase in membership in the Southern societies tends to bring down the figure for average trade per member.

FIXED PRICES AND COMPETITIVE PRICE POLICIES.

Whilst dealing with the general question of prices, it is necessary to point out that over a period of years a great deal of discussion has been taking place within the Co-operative Movement on the question of fixed prices. The following quotation from the "Handbook for Members of Co-operative Committees," by F. Hall, summed up the position ten years ago:—

"The question of fixed prices has lately been engaging the attention of the Movement. Complaints have been made that the sale of co-operative productions has been hindered by societies adding too great a percentage to cost prices in order to cover working expenses, and further hindered by the great variation in retail prices in different districts for the same goods, a variation that prevents the national advertising of these goods. To overcome these difficulties, the Co-operative Wholesale Society has fixed the prices for certain goods, and the desirability of extending the application of this policy has been much discussed. Differences in the rate of working expenses in different districts create difficulties and prevent the unrestricted application of this policy. A fixed price that provides a sufficient margin for one society is inadequate for another society with higher expenses or a bigger customary dividend, and the result may be to deprive the Co-operative Wholesale Society of the trade of some societies if the fixed price does not allow an adequate gross profit to cover expenses. If the margin is increased to meet the need of these societies, the price becomes too high to enable other societies to compete successfully against the traders in their area. A fixed price is a minimum as well as a maximum price, and it does not permit a reduction of price to meet local competition. For these reasons, it seems unlikely that an indefinite extension of the fixed-price policy is possible or desirable.

Whilst dealing with the question of fixed prices, reference may be made to the Proprietary Articles Traders' Association, which insists upon societies refraining from paying dividend upon the products of its members, if these products are sold at the fixed price. If dividends are to be paid, the amount must first be added to the fixed price. The iniquity of this requirement is obvious."

The Co-operative Movement has, in recent years, had to deal with many cases of manufacturers refusing to supply goods to societies unless the proviso that the goods shall not rank for dividend has been observed. A quite recent example of this practice was dealt with in *The Co-operative News* of November 4th, 1933, where it was pointed out that manufacturers of wireless sets had joined the makers of gramophone records and cameras in demanding that co-operative societies shall not pay dividend on the purchase of their goods.

At the present time, there is a growing feeling in favour of fixed prices for co-operative productions, but a totally different principle is involved in the fixing of prices for co-operative productions as compared with the fixing of prices by the P.A.T.A. or any outside organisation.

In effect, the fixing of prices by the P.A.T.A. is the fixing of minimum prices, and such prices (plus the proportionate amount of dividend) have to be charged by co-operative societies selling the commodities in question. The fixing of prices of co-operative productions is, on the other hand, the fixing of maximum prices.

Furthermore, the one is an imposition on co-operative societies from outside, whereas the fixing of prices for co-operative productions is, within the Co-operative Movement, a purely internal matter. It merely denotes that prices have been fixed at one point in the co-operative structure instead of at another.

The following quotation from a circular issued by the National Co-operative Authority to all retail co-operative societies in January, 1935, expresses the most recent official viewpoint on the question :—

"We are instructed by the Authority to commend once again the policy of supporting in a practical manner the efforts of the Wholesale Societies to provide co-operative productions at fixed prices. We are advised that since the last circular issued on this subject very encouraging progress has been made, for the sale of fixed-price co-operative products is increasing rapidly. Many of the fears expressed by retail societies have proved to be groundless. In the case of C.W.S. jams, for example, societies generally have found no difficulty in handling the Wholesale's fixed-price lines, the big advantages of which are now being felt by the retail societies. National advertising of such productions is rendered much more simple and many times more effective, when the price can also be quoted

Thus there can be no serious objection to the sale of co-operative productions at fixed prices. We are assured that the margins allowed to retail societies are reasonable. As societies find no difficulty in retailing at the fixed price many of the nationally-advertised products of certain non-co-operative concerns, the Authority believes that they can sell with even greater ease fixed-price products of their own factories. During 1935 the Authority hopes that fresh records will be made in the sale of co-operative goods advertised and sold at fixed prices."

The whole question, however, is still a controversial one, and objections to fixed prices for co-operative productions are frequently raised. The chief objections to the system were summarised and analysed in the January, 1935, issue of *The Producer*. The objections therein dealt with are:—

- (1) That the margin between wholesale and retail prices is (or would be) insufficient to cover either dividend, or exceptionally high overheads, or both.
- (2) That the expenses of societies differ and that prices should accordingly differ
- (3) That fixed retail prices eliminate skill in the management of retail trading establishments.
- (4) That the C.W.S. has no right to interfere in the business of retail societies or their managers.
- (5) That a fixed-price policy would turn the C.W.S. into a glorified P.A.T.A.

Undoubtedly variations in rates of dividends paid by retail co-operative societies and variations in working expenses are the greatest stumbling blocks to the policy of fixed prices for co-operative productions, and, other things being equal, the high-dividend retail co-operative societies are at the greater disadvantage under such a policy.

In 1930 a paper read before the Trades and Business Conferences of the Co-operative Movement on "A National Policy for the Co-operative Movement, with Special Reference to Dividends and Prices," by J. C. Cessford, excited a great deal of comment within the Movement. Mr. Cessford in this paper sought to prove that a lower price policy would tend to bring about an increase in trade. Mr. J. S. Simm, in a Co-operative Union pamphlet on "Present-Day Problems of Co-operative Finance," published in 1933, refers to the paper by Mr. Cessford and points out that "it should be clearly understood that what is referred to is high dividends, not medium or low dividends." A note in *The Co-operative News* of February 10th, 1934, bears on the same question:—

"——— Society decided to reduce prices in order to capture trade. In two weeks as a result it increased its sales of butter by five tons five cwt., lard by eight tons seven cwt., cheese by one ton four cwt., and sugar by twelve tons nine cwt. Increases in other lines have been substantial."

There are many other instances constantly quoted of increases in quantity sales which have followed the adoption of a more competitive price policy by certain societies.

COMPARISON OF CO-OPERATIVE PRICES AND PRICES IN OTHER BUSINESSES.

It has been previously pointed out that the question of prices cannot be separated from the question of quality, and this point needs stressing again here. The results of a private investigation carried out in February, 1934, with the object of comparing co-operative prices with prices in private trade, are very interesting. This investigation was a purely unofficial one, and was carried out in an impartial manner; it was confined chiefly to staple foodstuffs commodities, having in mind the fact that the bulk of co-operative trade is in the foodstuffs department. The inquiry was conducted chiefly on domestic lines because of the great importance of the domestic point of view, in the retail trade. The following is a list of the general results arrived at from the investigation:—

- (1) *Industrial Towns of South-East Lancashire.*—Co-operative prices tended to be slightly higher than the prices of private traders in most staple food commodities, the co-operative society in that area paying an average rate of dividend of 2s. 6d. in the £.
- (2) *Commercial City of South Lancashire.*—Co-operative prices the same as private trade prices in several staple food commodities, but the co-operative prices in the case of some other commodities tended to be slightly higher, the co-operative society covering that area paying an average rate of dividend of 2s. in the £.
- (3) *Small Industrial Town in Mid-Cheshire.*—Co-operative prices the same as the prices obtaining in private trade in practically all commodities; the co-operative society in that area paying a dividend of 2s. 6d. in the £.
- (4) *Residential Suburban Town in South-East Lancashire.*—Co-operative prices for staple foodstuffs the same as the prices charged by other types of traders in a number of articles, but tending to be slightly higher in the case of other commodities, the co-operative society in that area paying a dividend of 2s. 2d. in the £.
- (5) *Scottish University City.*—Co-operative prices tended to be higher than the prices obtaining in private trade. In the case of one or two staple commodities the price was the same in both cases, but the margin of difference in the case of other commodities was somewhat greater than in the other instances referred to in this list, the price of butcher's meat tended to be considerably higher in the case of the co-operative society; the co-operative society in this area paying a dividend of over 3s. 6d. in the £.
- (6) *Inland Spa of the North Midlands.*—Co-operative prices in staple foodstuffs tended to be slightly higher in some cases, but the difference in other cases was very slight, the co-operative society in this area paying a dividend of 2s. 6d. in the £.
- (7) *Large Industrial City of the Midlands.*—Co-operative prices in staple foodstuffs the same as prices charged by chain stores and other types of organisation in the district. The policy of the society is that co-operative prices shall not be higher than competitive prices, and in some instances co-operative prices are even slightly less; the co-operative society in that area paying an average rate of dividend of 1s. 2d. in the £.

- (8) *Area in the Southern Section*, covering a field operated by three co-operative societies.—In most staple foodstuffs the co-operative prices were the same as the prices charged by other traders. In footwear and ready-made clothing there was little difference in prices except that brought about by differences in quality, the co-operative societies paying average rates of dividend of from 1s. 6d to 1s. 8d. in the £.
- (9) *Area covered by a group of co-operative societies in the Co-operative Union South-Western Section*—Co-operative prices in the case of most staple foodstuffs commodities tended to be the same as prices charged by other traders, in some cases the co-operative prices were slightly less. Average rates of dividend paid by the co-operative societies concerned ranged from 1s 0½d to 1s 6d in the £.
- (10) *The London Area*—The co-operative prices in the London Area may be said to be about the same as the prices charged by other traders. An investigation, however, can be made to prove in the one case that co-operative prices are higher, and in the other case that co-operative prices are lower, the difference between the two findings bringing in the question of quality, co-operative societies in the London Area paying average rates of dividend of from 1s to 1s 6d in the £.

Two significant points emerge from this investigation, and although the investigation can only be said to amount to a sampling of prices in different areas it is probably true to say that the same general features would be found to obtain in practically every district in the country. The two points are as follows:—

- (1) *In all cases in the Northern half of the country co-operative prices were either the same or slightly higher than the private trade prices, in no individual instance were the general co-operative prices found to be lower than private trade prices. This fact confirms the view previously expressed that in most districts the local co-operative society tends to dominate the price level, and outside prices are, in consequence, fixed at a level, in most cases a fraction below the level of the co-operative prices. In the Southern half of the country co-operative prices were the same as prices charged by other traders, and in some instances there was a suggestion of the co-operative prices being slightly lower.*

The difference of the findings in relation to the Northern and Southern parts of the country is very significant when what has been written previously about the higher rates of dividend obtaining in the Northern areas is recalled to mind.

- (2) *In no individual instance was the margin of difference between co-operative prices and private trade prices in a selected area found to be equal to the rate of dividend per £ of sales paid by the co-operative society operating in that area. This proves that any slightly higher prices that may be charged in some instances by co-operative societies do not pay for the whole of the dividend, but it is highly probable that some part of the dividend is accounted for by slightly higher prices, particularly in the case of societies paying a high rate of dividend.*

One particular commodity round which there has been a considerable amount of controversy recently is milk. Reference has already been made to the rapid development of the co-operative milk trade. The price charged by co-operative societies for milk must now be the same as the price normally obtaining, yet co-operative societies with an increasing milk trade are able to

pay their normal rate of dividend on milk purchases. In some cases private vendors of milk have found it necessary to allow a discount to their customers as a set-off against the obvious advantage derived by customers purchasing their milk supplies from the co-operative society. Practically the same comparison can be made in the case of bread. It is particularly interesting to bear this fact in mind, having regard to the fact that the bread and milk trade of co-operative societies is now extensive, furnishing a relatively large proportion of the foodstuffs trade of the Movement.

In addition to the foregoing major discussion on the general question of dividend and prices, there are several minor matters which have a bearing on the same subject. Apart from the sound quality of articles sold by co-operative shops, members trading with co-operative shops sometimes obtain indirect benefits which are often overlooked ; for example, it was the practice of co-operative societies to give net weight when selling tea, years before the Sale of Tea Act, later consolidated in the Sale of Food (Weights and Measures Act) was passed. This was equal to a price concession because the paper weighed with tea was of a substantial type. In fact, the Act owes its genesis to the amount of paper sold at tea prices. At present many co-operative societies give full net weight in such commodities as bacon, butter, cheese, margarine, and rolled oats, although the Law does not require that they should do so, and very many of their competitors do not do so. Again, one of the large London societies maintains a regular service of motor coaches between London and Bournemouth and other South Coast towns. In the first place the Traffic Commissioners would not grant running powers, so the society bought control of a company and are running the services in the name of the company. All fares are regulated and a co-operative society is not allowed to give a dividend on fares, but quite obviously such a restriction is not complete ; for instance, in the case under discussion, any profit which is earned and not disbursed in the form of dividend to coach users must go to swell the general surplus of the co-operative society in question, and be ultimately disbursed in the form of dividend to the ordinary members of the society. So whilst trade companies are safeguarding themselves they are making the dividend factor more intense for other competitors of the Co-operative Movement. A similar argument to the above may be applied to National Health Insurance prescriptions. Any surplus accruing from these fixed price departments is diverted finally to the benefit of the general purchaser.

CHAPTER XI.

ECONOMIC VALUE OF INCREASED
TRADE DUE TO DIVIDEND.

It is a generally accepted fact that in the economic struggle a co-operative society holds a relatively strong position in comparison with other businesses in the same locality operating in the same type of trade. The membership of a co-operative society is usually anxious to do what it can to further the interests of the society.

To a greater or lesser degree the members are loyal to their own society. There are two main reasons for this loyalty, viz., (a) *they are loyal to the society because they recognise the fact that in trading with the society they are employing their own capital, helping to increase the surpluses of the society, and thereby increasing the total amount of dividend on purchases to which they will be entitled, and (b) they are loyal to the society because they realise the general social significance of the Co-operative Movement as a democratic trading and social organisation.*

On the whole it is fairly true to say that the majority of co-operative members are swayed more by the economic appeal expressing itself in dividend than by the social appeal. Although the Co-operative Movement in its early days was definitely a trading movement, it was also a social movement for it was brought into existence as a result of the bad social conditions of the period, and the early co-operators were too near to the social causes which brought into effect the Movement, ever to lose sight of its social significance. Since that time, however, social conditions have improved out of all recognition; indeed, the Co-operative Movement itself undoubtedly has made its own contribution to that improvement. In addition, the total membership of the Co-operative Movement has increased much more rapidly than the members have been educated in the social aspects of the Movement of which they are a part.

The Movement is well aware of the fact that although there are over seven million members of co-operative societies in the United Kingdom, only a proportion of this figure can be regarded as co-operative in a social sense; hence the extensive educational activity of the Co-operative Movement, for it is realised that members who are co-operators in a social sense will tend to be a great deal more loyal to the Movement in an economic sense.

It is sometimes deplored within the Movement, that the economic appeal of co-operative trade has become stronger, whilst the social appeal has relatively declined, so far as the total membership is concerned, but this fact is not as disturbing as at first might be supposed, for one reason that helps to explain the position is that people to-day possess a much wider knowledge of economic matters than the people, say, of 50 years ago; probably the economic significance of the Co-operative Movement was not realised as much 50 years ago because the economic knowledge of the average individual was at that time very scanty. The economic and social aspects of the Co-operative Movement are, after all, closely linked together, and the economic appeal of dividends is a factor which not only has reactions in an economic sense, but also in a social sense.

Throughout the whole experience of the Consumers' Co-operative Movement, however, it is clear that dividend has had a bearing upon co-operative trade, and because of that fact it must be conceded that the payment of dividend is something that is of economic value. The appeal of dividend in an economic sense is very strong; strong enough in many cases to cause members, for no other reason but that, to trade at the co-operative stores. Some members will buy from their co-operative society articles which are not exactly of the kind they want, rather than go elsewhere; this is an important point to notice, because it means very often that a co-operative society can sometimes escape some of those losses which are incurred by other trading organisations when customers' needs have been incorrectly anticipated.

A much more important economic fact which is linked with the co-operative system of dividend on purchases is the value of a regular trade brought by a known membership. The private trader certainly has his regular customers, who, because of some particular reason, trade with him in preference to trading with the other shops in the locality, but there is no special bond between the private trader and his customers. The multiple shops and the departmental stores rely on their ability to attract trade through specialisation or departmentalisation, but the regularity of their trade is not assured even to the same extent as that of the private trader. The means of measuring trade with a greater exactness thus placed in the hands of the Co-operative Movement is claimed to be one of the most important features of the economics of Co-operation. It can be readily seen that the ability to measure demand is of supreme importance, and the greater regularity of trade brought to the Co-operative Movement through its system of dividend places that ability in the hands of the Co-operative Movement to a much greater extent than in private trade. Greater stability would obviously be given to the whole economic structure if a regularity of trade made it possible to measure demand and, in consequence, to measure supply,

there would be an elimination of waste and overlapping with their attendant evils ; in fact, the effect of being able regularly to estimate demand would be so far reaching as to bring within sight a solution of the whole problem of distribution, which is probably one of the biggest economic problems of the present age.

Other economic advantages of regular trading brought about by dividend are those savings in the working expenses of co-operative societies such as the saving in advertisement costs. The system of saving by means of dividend on purchases must, of necessity, act in the nature of an advertising medium, particularly amongst working-class people who comprise the greatest proportion of co-operative membership. Dividend is, perhaps, the greatest advertisement of the Co-operative Movement, every individual member trading with the Co-operative Movement has an interest in dividend, and it has been suggested already that the appeal of dividend constitutes the greatest inducement to individuals for them to become members.

(a) *Bearing of Increased Dividend upon Trade.*

The point arises, however, as to the bearing of increased dividend upon trade ; that is, as to whether an increase in the rate of dividend is likely to increase trade. It is very probable that, other things being equal, an increase in the rate of dividend will bring about an increase in trade in the short period, but it is not certain that the increase in trade will either be commensurate with the increase in dividend, or that it will be sustained over the long period. The increase in trade due to an increase in dividend is more likely to be in the nature of a stimulus, and, as the members become accustomed to the higher rate, conditions will tend to stabilise. This is leaving on one side for a moment the question of whether or not the increase in dividend will have a reaction on prices ; if the increase in dividend is due to increased prices, any increase in trade which may accrue is likely to be for a much shorter period than if the increase in dividend was brought about through the operation of factors other than prices, e.g., increased efficiency leading to reduction of expenses.

The general attitude of the Co-operative Movement as a whole with regard to the bearing of increased dividend on trade seems to be very clearly indicated. The general tendency during recent years has been for the average rates of dividend to move downwards (see Chapter VII.), and societies developing rapidly in the South have made no effort to pay dividends as high as the older-established societies in the North. This tendency towards lower dividend rates must be taken as proof that the Co-operative Movement as a whole is convinced that in the long period it is beneficial to trade to lower dividend rates rather than to increase them, particularly if the increase is the result of a higher price policy. The attitude of the Co-operative Movement, thus interpreted, is that the bearing

of increased dividend on trade is in the long period not good, for how otherwise can the tendency to move in the opposite direction of lower dividends be explained? The Movement is as anxious to capture trade to-day as ever it was, yet it has steadily reduced its average rates of dividend during recent years, and at the present time is, in many quarters, advocating still further reductions in the rates of dividend with an accompanying reduced price policy.

From a statistical point of view it is difficult to show the bearing of increased dividend on trade, because no really good examples of societies raising their rate of dividend to any marked degree are available. The general tendency is for dividend rates to move downwards, and the general tendency is only the reflection of the particular tendency evidenced in the individual societies. There may have been a time in the history of the Co-operative Movement when, to raise the rate of dividend was the ambition of every individual society, and when such a policy was advantageous to the society and beneficial to the trade of the society; but that time is passing; a better understanding of the economics of the dividend question, keener competition, and the development of the Movement in departments which cannot maintain a high rate of dividend per £ of sales—these and other factors have hastened the passing of the policy of increased dividends.

In the table shown in Appendix C, statistics relating to membership, trade, average trade per member, and the average rate of dividend, for the years 1927 and 1932, have been collected for all retail distributive co-operative societies having more than 20,000 members at the end of 1932. There were 72 such societies at the end of 1932, and whilst the table was compiled primarily to show the movement in the average trade per member in the case of societies which had increased their rates of dividend in the five years covered, it also reveals the movement in the average trade per member in the case of societies where the rate of dividend had remained stationary, and in the case of societies where the rate of dividend had decreased. The average trade per member of all societies has, of course, been adversely affected by the general fall in the level of prices which was taking place between 1927 and 1932, but within the table the figures for the individual societies can be compared by measuring the fluctuations in the average trade per member of the respective societies against the difference between the figure representing the average trade per member for all the retail societies within the Movement for the years 1927 and 1932. The figures in the table do, certainly, point to the fact that changes in the rate of dividend have their reaction on the average trade per member. A close study of the figures shows that the average trade per member of societies paying a lower rate of dividend in 1932 than in 1927 had tended to fall more quickly than the average trade per member for the whole of the retail societies.

The fall in the average trade per member for the whole Movement for the period 1927 to 1932 was £6.12, or 17.07 per cent of the average trade per member for 1927. Reference to the figures for society No. 24, for example, will show that the society increased its rate of dividend from 10½d. in 1927 to 1s. 6d. in 1932, and the average trade per member actually increased by £2.74. On the other hand, society No. 25, which lowered its rate of dividend from 1s. 6d. in 1927 to 1s. 4½d. in 1932, returned a decrease in the average trade per member of £7.82, or 21.04 per cent of the trade per member for 1927. Incidentally, it will be noticed that both society No. 23 and society No. 26 were paying the same average rate of dividend in 1932 as in 1927, but the average trade per member in each case had fallen more quickly than the average for the whole country, viz., £7.96 or 24.27 per cent, and £8.38 or 24.04 per cent respectively.

Again, society No. 40 is an example of a society in which the average rate of dividend has been increased within the period, from 2s. in 1927 to 2s. 3d. in 1932, but the average trade per member has fallen more rapidly than the general average, viz., by £9.32, or 21.70 per cent. Society No. 44 lowered its rate of dividend from 1s. 11½d. in 1927 to 1s. 7½d. in 1932, but its average trade per member fell by £11.5 or 30.03 per cent, whilst society No. 45 raised its rate of dividend from 1s. 7d. in 1927 to 2s. in 1932, and its average trade per member did not fall to anything like the extent to which the general average fell, viz., by £2.28 or 7.68 per cent.

Society No. 55 lowered its rate of dividend from 1s. 6d. in 1927 to 1s. 3d. in 1932, and its average trade per member actually increased within the period by £3.51. In the case of society No. 57, the society with the largest membership in 1932, the dividend remained the same in 1932 as in 1927; the decrease in the average trade per member was £4.68 or 17.54 per cent, a percentage very near to the percentage reduction in the general average trade per member over the period.

From the examples referred to, it would appear that whilst changes in the rate of dividend certainly have their reaction on the average trade per member, it is by no means true, or consistent with facts, to say that an increase in dividend brings about an increase in the average trade per member, or that a decrease in dividend will cause the average trade per member to fall.

At the same time, the figures in the table seem to indicate that in the majority of cases a fall in the rate of dividend has adversely affected the average trade per member of the society concerned. It should, however, always be borne in mind that practically the whole of the time there are other factors affecting the circumstances of local societies, and the relationship between the rate of dividend and the average trade per member is not always unhampered.

Probably the following analysis of the changes in dividend and in average trade per member over the period 1927 to 1932 for the 72 societies under discussion will show more clearly the trend of the changes :—

	Total	Societies in which rate of Dividend had been increased	Societies in which rate of Dividend had remained same	Societies in which rate of Dividend had been lowered
Average trade per member fallen more rapidly than general average ..	30	9	7	14
Average trade per member not fallen, or not fallen as rapidly, as general average.....	42	26	11	5
Total	72	35	18	19

It is obvious from this analysis that changes in rates of dividend do not have any consistent effect on the average trade per member in different societies, but there is a suggestion that a raising of the rate of dividend reacts favourably on the average trade per member in the majority of cases.

(b) *The Bearing of Increased Trade on Dividend.*

One fact that must not be overlooked in discussing the economic value of increased trade due to payment of dividend on purchases is that dividend and trade are causally related; the question has two sides. Owing to the system of paying dividend on purchases in the Co-operative Movement, the bearing of increased dividend upon trade is only one side of the question; the other important side which must not be overlooked is that of the bearing of increased trade upon dividend.

In Chapter VIII., in discussing the system of dividend on purchases as compared with dividend on capital, it was pointed out that as a co-operative society increases its trade it simultaneously increases its liability for dividend. Bearing in mind the arguments brought forward on this point, it will be realised that any gain resulting from increased dividend, leading to increased trade, is offset, up to a point, by the increased liability for dividend on the increased trade. This is a very important factor in the economics of dividend and a point which must be considered whenever it is suggested that rates of dividend should be increased in order to attract trade, otherwise the advantage which may be gained on the one hand may be as quickly wiped out by the disadvantages arising on the other hand.

Having regard to this fact, then, it seems fairly clear that it should be the aim of co-operative societies to find the equilibrium, that is to find the economic rate of dividend which will be high enough

to induce their members to purchase up to the maximum, and low enough to enable the societies to pay the dividend out of their real surpluses, without having to manipulate prices at all to ensure adequate surpluses. The equilibrium should be represented by the economic rate of dividend which will attract a regular trade on which the rate of dividend can be earned, and should be such a figure that increases in trade will be absolutely to the advantage of the societies, and not prove to be any disadvantage over and above the ordinary liability for an economic rate of dividend which is automatically resulting from the trade.

(c) *Amount Allocated as Dividend on Purchases Due to Mutual Trading not Liable to Taxation.*

Prior to the passing of the Finance Act of 1933, a co-operative society registered under the Industrial and Provident Societies Acts was liable to a charge for Income Tax under Schedules A and B, but was exempt from the charge to Income Tax under Schedules C and D, provided that it did not at one and the same time sell to non-members and restrict its membership. The exemption was based chiefly on the presumption that mutual trading could not result in a profit. This exemption from Income Tax under Schedules C and D, which previously obtained, is particularly important in regard to co-operative surpluses, for the surpluses resulting from co-operative trading prior to 1933 were entirely exempt, and could be allocated as dividend on purchases to be returned to the purchasers or allocated in any other way at the discretion of the society without suffering any deduction arising through Income Tax charges. In 1933, however, the position was completely changed by the passing of the Finance Act; and the present position, in brief, is that whilst societies are still exempt from Income Tax under Schedules C and D, so far as the amount of their surpluses allocated as dividend on purchases is concerned, they are now liable for tax on that part of the surpluses which is not so allocated. In other words, the undistributed surplus of a co-operative society is now liable to Income Tax under Schedules C and D. From what was written in Chapter VII., dealing with the distribution of surpluses, it will be seen that the main item to be affected in the list of allocations is the allocation to Reserves. Whether co-operative societies will avoid taxation by increasing the proportion of surpluses allocated as dividend on purchases and reducing the allocation to reserves, or whether they will prefer to maintain their allocations to reserves, remains to be seen. The question is a matter of policy for each society to consider having regard to its own peculiar circumstances.*

* The National Co-operative Authority reviewed the position in 1935 and urged Societies to "set aside adequate reserves to ensure the financial stability of the organisation even if this entails additional tax liability."

CHAPTER XII.

DIFFERENT RATES OF SURPLUS.

Reference has been made already to the fact that the net surplus per £ of sales is not the same for different departments in the retail distributive trade. An examination and analysis of the departmental trade accounts of various retail distributive co-operative societies confirms this. In the Co-operative Movement, however, comparison is made extraordinarily difficult because of the wide differences existing between the final trading results of societies, particularly where the differences in the final results are due to different price policies. In comparing the results in the case of different societies, account must be taken of the differences in price policy and the differences in the proportions of the trade of the different departments to the total trade of the respective societies. It is probably best to compare the trading results of one particular department within a society with the trading results of a similar department in other societies. Taking the trading results of different departments within one society, it will be evidenced that they vary considerably and it is this fact, more acute in the case of some societies than others, which has undoubtedly been responsible for some societies paying different rates of dividend on the trade of different departments.

In the retail trade in general it is found that foodstuffs departments yield a lower rate of net surplus than departments dealing in goods other than foodstuffs. In the report of the Committee on Industry and Trade, in 1928, on page 118, a comparison is made which shows that in 1925 the net margin expressed as a percentage of sales in the grocery departments in certain selected co-operative societies was 6.1 per cent as compared with 8.4 per cent for all departments other than grocery, and 7.2 per cent for all departments together; also, that in the case of several selected grocery businesses the net margin was 4.9 per cent of sales compared with 6 per cent in the case of selected departmental stores.

(a) *In Different Departments in a Society.*

Although no two retail distributive co-operative societies are found to be parallel, an examination of the net surpluses in different departments in a number of selected societies points to the fact that in most cases the grocery departments tend to yield a lower rate of net surplus than the other departments and, in many cases,

a lower rate of net surplus, than the society as a whole. Naturally, if departments other than the grocery department are returning a higher rate of surplus than the grocery department, there will be a tendency for the other departments to subsidise the grocery department and to raise the rate of surplus for the society as a whole. Of course, it must be remembered that there are many other factors affecting the results—price policies may differ in different departments within the same society, whilst the functions of management are not unimportant in this connection.

It is, however, possible to find societies in which the rate of net surplus for the grocery department is higher than the rate of net surplus in the other departments, but in general the grocery department will yield a lower rate of net surplus than, say, the drapery department.

It has at times been suggested that the butchering departments of retail co-operative societies yield a lower rate of net surplus than the grocery departments, but present-day figures seem to indicate that the yield of the butchering departments varies very considerably from society to society, and in some instances the rate of net surplus in the butchering department is considerably higher than the rate of net surplus in the grocery department. All these differences in the trading results of retail societies are particularly important. The chapter dealing with co-operative trade gave evidence of the fact that the grocery trade of the Co-operative Movement was predominant. In the case of older-established co-operative societies, the traditional policy of the society as a whole has been based undoubtedly on the trade of the grocery department. The history of co-operative trade commences with the foodstuffs departments; in the older-established societies with a traditionally high rate of dividend it is true to say that the rate of dividend was the result of a particular policy operating in the foodstuffs departments, and in many cases attempts to maintain such a policy have deferred the opening of other departments which would not be likely to yield immediately such a high rate of net surplus.

This is one of the major reasons which account for the fact that the societies in the South, which have developed considerably in later years, have tended to pay a lower rate of dividend. Competition in recent years has become keener in all departments, and the societies growing rapidly have not had the same opportunity of establishing themselves primarily in the grocery trade, with a policy leading to a high rate of net surplus. They have found it necessary to adopt a more competitive policy in the grocery trade and to extend to other trades, and their more competitive policy has enabled them the more easily to do so. It is probably true to say that if the societies of more recent development in the South had adopted a higher price policy they would not have registered the progress which they have done.

(b) *In Different Societies.*

Sufficient evidence has already been submitted in this book to show the wide variation in the rates of net surplus of different co-operative societies leading to a consequent variation in rates of dividend. Viewing the whole of the retail societies in the aggregate, there does not seem to be any relation between one society and another, so far as dividend policy is concerned, but a close examination of the societies as a whole reveals the fact that in a very broad sense certain tendencies are discernible. For example, the figures for the different geographical sections indicate the tendency for the Northern societies to pay a higher rate of dividend than the Southern societies; there is also a broad tendency for societies in a particular district to keep to a somewhat similar rate. Individual instances can, of course, be found that completely offset the general argument, in fact there are several instances of societies in the North which pay a fairly low rate of dividend; the Progress Co-operative Society, which operated in Glasgow, was a non-dividend society, but it was wound-up in 1928 and its engagements were at that time transferred to the Kinning Park Co-operative Society. Again, in some instances, there are two societies operating in the same town but paying different rates of dividend.

Many of the reasons for these differences which exist between societies in this respect have already been discussed, viz., differences in location, differences in efficiency of management, differences in policy, and differences in custom.

The table in Chapter VIII., showing the rates of dividend paid by different societies, indicates that the dominant rates of dividend in 1932 were from 1s. 6½d. to 2s. 6d., 597 societies out of 1,171, more than half the number, paying these rates. The statistics illustrate clearly the position previously outlined; in the Scottish Section, 188 societies paid a dividend of over 2s. in the £, whilst 66 societies paid 2s. or less; in the Southern Section, 118 societies paid 2s. or less, whilst only two societies paid over 2s. The table referred to above should be studied in conjunction with the other tables in the same chapter relating to rates of dividend received by different proportions of membership and trade.

(c) *In Large Societies and in Small Societies.*

There does not appear to be any rule governing the payment of dividend in retail co-operative societies of a different size. There are large societies which pay a high rate of dividend and large societies which pay a low rate of dividend; on the other hand, there are small societies which pay a high rate of dividend and small societies which pay a low rate of dividend. It might be expected that the very small societies, not being such important units, and not being large

enough to guarantee their scientific control and management, would tend to aim at a high rate of dividend, even a high rate of dividend which was absolutely uneconomic, but this is not borne out by the facts.

In the detailed abstracts of statistics, from which the tables relating to the dispersion of dividend in Chapter VIII were compiled, it is clearly shown, that, in the groups showing societies paying different rates of dividend, large and small societies are listed side by side in every group.

The table given in Appendix C shows the membership and trade of the 72 retail societies with over 20,000 members at the end of 1932.

From the figures given therein it will be observed that in the case of these large societies, in 1932, the rates of dividend paid varied from 1s. to 3s. 7½d. It is interesting to note, however, in passing, although no particular significance in connection with this discussion need be attached to the point, that the society paying the highest rate of dividend in 1932 was a small society in North-East Lancashire, with 461 members and a rate of dividend of 4s. 6d. in the £.

Obviously there is not one law for large societies and another law for small societies, so far as rates of net surplus and rates of dividend are concerned. The only grouping possible, even in a broad sense, is the geographical grouping in Sections or in Districts, which has already been referred to under (b).

(d) *In Old and New Societies.*

It is exceedingly difficult to speak with any degree of sureness on the question of different rates of dividend obtaining in old and new co-operative societies. No important large society has been established recently; certainly new societies have emerged during the last 20 or 30 years, but in most cases these societies have been the result of combination or amalgamation of two or more societies previously established. The peak year for the number of retail distributive co-operative societies in the United Kingdom was 1903, when there were 1,455 such societies in existence. That number had diminished to 1,171 in 1932, largely due to amalgamation. The yearly figure from 1903 has fallen fairly consistently, however, down to the present time, although there have been the following exceptions: 1909 when the figure increased by 12 on that of the previous year (1908, 1,418; 1909, 1,430), 1914, when there was an increase of three over the figure for the previous year (1913, 1,382; 1914, 1,385); 1917, when there was an increase of four over the previous year (1916, 1,362, 1917, 1,366); and 1920, when there was an increase of 22 over the previous year (1919, 1,357; 1920, 1,379). Since 1920 the figure has diminished consistently year by year.

It is, therefore, difficult to define an old society and a new society, particularly having regard to the fact that the Co-operative Movement, as at present understood, has not yet reached its centenary. The

statistics, however, do show that in 1882 there were already well over 1,000 retail distributive societies in existence, and although there is no sound reason for drawing a line of demarcation at this point, for the purposes of examination it may be expedient to do so. The question then arises as to whether or not societies formed before that date, which, in co-operative history may, for the sake of argument, be labelled "old societies," and societies formed after that date which, with a similar reservation, may be labelled "new societies," show any difference in rates of dividend. The answer is that there does not appear to be any particular difference between these "old societies" and "new societies," so far as rates of dividend are concerned; that is, no difference apart from the general diversity between societies constantly referred to throughout this work.

The generally accepted theory has been that the older societies tend to pay a higher rate of dividend than the newer societies, but this theory requires some elucidation. There are societies which were formed prior to 1882 which paid a very high rate of dividend; there were other societies formed prior to 1882 which paid a much lower rate of dividend; on the other hand, there are societies which have been formed well within the last 50 years which have paid, and still pay, a relatively high rate of dividend, whilst other societies formed in the same period pay a relatively low rate of dividend. Probably the explanation of the theory referred to above is that a few societies were formed quite early in co-operative history in a certain area and immediately began to build up a tradition of a high rate of dividend; other societies commencing at a later date in the same area followed suit, partly from compulsion and partly from inclination. Other early societies in another area did not commence to build up the same tradition of high rates of dividend, but paid a much lower rate, consequently other societies following at a later date in the same area copied their example.

In the earlier period the societies in the high dividend areas tended to develop more rapidly than the societies in the low dividend areas, with the result that the former group gained a much more prominent place. These high dividend societies were definitely in the North, particularly Scotland, and the low dividend societies were in the South. The question still remains to be answered, however, as to why, among the very early societies, there obtained two such obviously diverse policies. Probably the type of population served by the societies had an important bearing on this problem. Some of the earlier societies in Scotland and in the North of England and in Lancashire served the big industrial areas; the working-class element was interested in co-operative trading and without understanding the economics of dividend became involved in a high dividend policy. The earlier societies in the South were operating amongst a totally different type of population where, in general, enthusiasm for the co-operative type of trading was not as great, consequently they had to pursue a different policy in order to maintain

their existence. During recent years, however, the extraordinary development of the societies in the South has raised the question as to whether such development is accounted for by the low dividend policy of these societies. Undoubtedly, the development in the South cannot be separated from the low dividend policy and lower price policy of the South, but there are other factors which have affected the situation, probably one of these is the movement of population from the North to the South which has been taking place during recent years.

(e) *The Geographical Sections.*

The different rates of surplus and rates of dividend obtaining in the groups of societies constituting the different sections of the Co-operative Movement have already been discussed throughout this work, and tables showing the position in the different sections have been submitted. It is, therefore, unnecessary at this point to say anything further under this head, except, perhaps, to stress again the fact that the group figures for the sections must be taken to indicate the general trend only, for within each section there will be found particular instances which are not in line with the general conclusions.

(f) *In Wholesale Societies as compared with Retail Societies.*

In Chapter VI., dealing with co-operative surpluses in general, tables were given showing the surpluses, in selected years, of the co-operative wholesale societies. It was pointed out there, that the difference in the nature of wholesale trade and retail trade, together with other factors, caused the surpluses of the wholesale societies to be smaller in proportion to their total trade than those of the retail societies. The following table shows the average dividend per £ of sales of the two primary wholesale societies for selected years:—

Year	Co-operative Wholesale Society	Scottish Co-operative Wholesale Society
	d	d.
1882	2 $\frac{3}{4}$	5 $\frac{1}{2}$
1892	2 $\frac{1}{2}$	6 $\frac{1}{2}$
1902	4	8
1912	4	8
1922	—	2 $\frac{1}{2}$
1923	1	3
1924	2	4
1925	2 $\frac{1}{2}$	4
1926	3	4
1927	3	5 $\frac{1}{2}$
1928	3	6
1929	3	6
1930	3	6
1931	4	6
1932	4	6
1933	4	6

The effects of the acute period of industrial depression following the war are very clearly evidenced by the above figures. In more recent years, however, both wholesale societies have recovered their former position and have been enabled to restore their normal rates of dividend on purchases. In addition, both wholesale societies are making efforts to increase the trade of co-operative productions. The following extract from the published Report and Accounts of the Co-operative Wholesale Society, January, 1934, is interesting :

"We are determined to give our societies every encouragement to sell our productions, and to this end we are recommending the payment of *an additional dividend of 2d in the £ on our productive sales*"

An extract from *The Co-operative News*, June 23rd, 1934, indicated that the Scottish Co-operative Wholesale Society was moving in a similar direction :—

"It is understood that the S.C.W.S. directors, at their meeting on Friday of last week, decided to recommend the continuance of a dividend at the rate of 6d in the £ on purchases made during the half year ended in May.

In addition, it is proposed to pay a 'loyalty' bonus of 1s. on every sack of flour (280 lbs) purchased from the S.C.W.S. flour mills. The mills have had a very successful trading period, and the Board were of the opinion that the societies which had contributed to this were entitled to receive recognition."

It will be noticed from a comparison of the rates of dividend of the two wholesale societies that the Scottish Co-operative Wholesale Society tends to pay the higher rate of the two. The probable explanation of this is the difference in the types of productive trade undertaken by the two organisations. The total net surpluses of the two societies reckoned as a proportion of their capital are more nearly in line than the total net surpluses reckoned as a proportion of their respective total amounts of trade, and this fact confirms the above suggestion.

The important feature, however, about the dividends of the two wholesale societies, is that they are credited to the purchasing retail societies, and it has been pointed out already that these amounts go to swell the surpluses of the retail societies, being finally passed on to the consumer-members of the retail societies as a portion of their dividend on purchases.

CHAPTER XIII.

DIVIDEND POLICIES.

An examination of the subject of dividend, on purchases as an element in co-operative trading, emphasises constantly the wide diversity in the trading results of co-operative societies. Although in some instances such differences may be due to accidental causes, it may be conceded that in the majority of cases the differences are due to entirely different policies operating in different societies. It is not an accident that one large well-governed retail society should be able to pay a dividend of, say, 3s. 6d. in the £, whilst another large well-governed retail society should only be able to pay a dividend of 1s. in the £; it is the result in both instances of a certain definite policy. It is true that tradition and circumstances may, to some extent, dictate the particular policy in each case, yet, nevertheless, the policy is evident.

(1) *High and Low Dividends.*

The generally accepted explanation of high and low dividends is that, in the main, they are the automatic resultant of different price policies, that is, that high dividends are the result of high prices, whilst lower dividends are the result of lower prices. Other things being equal, this explanation must, of course, be the correct one, although in some instances other things are not equal and other factors enter into the matter, *e.g.*, efficiency of management, range of departments covered by a society, &c. Difference in price policy, however, is the greatest single factor determining the differences in the trading results of most retail co-operative societies; there is no other single cause to which any wide difference in trading results can be attributed in the majority of cases.

It is unnecessary, at this point, to discuss the merits of high and low dividend policies. One of the main objects of this book, throughout, is to examine fully the whole question, and conclusions must be reserved until the end. The effects of different policies on capital accumulation and on trade have been previously examined, and it is fairly clear that whilst high dividends may have helped both capital accumulation and trade in past years, their reaction in regard to both in recent years tends to be less acute. Rates of dividend have probably been a more important factor in past years than they are at present, or will be in the future. Furthermore, capital accumulation and trade have largely been matters of internal development and intensive progress. Another important side to the question is the extensive development of the Co-operative Movement; the attracting of new members to the Movement; and the

development of co-operative activities in distributive departments and productive and service departments which, up to the present, have not been exploited to any great extent.

It is necessary in considering high and low dividend policies, not only to seek for the causes of these different policies and to observe the results of their operation in the past, but also to estimate their present and future value, not only in so far as they lead to intensive development, but in so far as they affect the extensive development of the Co-operative Movement.

(2) *The Abolition of Dividends.*

The abolition of dividend implies the abandonment of the present system practised by retail co-operative societies of selling at current market prices, and a return to the earlier system of selling at cost price plus the expenses of distribution. The idea is one which may sometimes be discussed in theory within the Co-operative Movement, but in practice it is not considered to any serious extent. It may be that some time in the future the Co-operative Movement will reach a stage when the abolition of dividend has become a practical proposition, but the time has not yet come.

The experience of the pre-Rochdale societies which tried to work out the Owenite theory of selling at cost price plus expenses of distribution was not happy. In the introductory chapters it was mentioned that this policy was probably one of the biggest factors leading to their non-success. Since that time societies have gained sufficient commercial knowledge to help them better to understand the tremendous risks and difficulties involved in the abolition of dividend. On the one hand, it may be argued that the increased efficiency of societies to-day would help them to operate a non-dividend system with success, on the other hand, it may be argued with equal force that the increased importance and responsibilities of present-day societies render it highly unwise for them to attempt to do so.

There are two important points of view which must be brought into line in this connection; one is, the consumer's point of view as an individual; the other is the co-operative point of view, or the point of view of the consumer in a collective sense. The importance of dividend in assisting in the accumulation of capital within the Movement has already been clearly evidenced; the fact that the Consumers' Co-operative Movement has held a sure supply of capital has done much to stabilise it and to make for its steady progress. Likewise in the past the attraction of dividend has, undoubtedly, brought a regular trade to co-operative societies which, in turn, has resulted in the surpluses and dividends. From the co-operative point of view, dividend has always been of great importance.

The point of view of the consumer as an individual brings into the discussion the question of selling goods at the cheapest possible price; that is, the advisability of giving to the individual consumer immediately, the benefits accruing from mutual trading, rather than postponing such benefits for a period; but even taking this individualistic view it must be admitted that there is a definite benefit to the individual coming from dividend, for in many instances it enables him to save and increases his material security. The economics of dividend are much better understood to-day than they were 50, or even 20, years ago, but in the case of the vast majority of co-operative members much educational work will have to be done before they are able to appreciate the abolition of dividend in order to give the consumer, through reduced prices, the immediate benefits of co-operative trading.

In many co-operative societies high dividends are a tradition; a tradition accepted by the management and passed on to the individual members; such a tradition dies very hard; it is difficult to swing the point of view completely round, and instead of making high dividends the ideal, substitute a policy of no dividend. It is, however, the point of view that is the important factor in this matter; the abolition of dividends at the present time in the Co-operative Movement would be a premature and unwise step; to change the point of view to one which looks to a time when it will be possible to abolish dividends would be a wise step. There is evidence that such a change in the point of view is taking place at this moment; it is expressing itself in the plea for lower dividends and a lower price policy. There are, of course, many who would support a policy of lower dividends who would never look so far ahead as to visualise a policy of no dividend, but the important thing is that they are facing in the direction of no dividend and are prepared to go part of the way when they advocate lower dividends.

In discussing the abolition of dividend, it should be understood that any consequent reduction of prices would not, in some cases, be as marked as some people might think. The total net surpluses of retail societies in 1932 represented 9.86 per cent of sales, or approximately 1s. 11½d. in the £. If dividend were abolished in favour of relatively lower prices, roughly speaking, it would be possible to reduce by 1d. every purchase to the extent of 10d., and the final position would, in theory, remain the same. These figures, however, relate to the Movement as a whole; the position in the case of the individual societies would vary considerably; a society paying a dividend of 3s. in the £ would be able to effect 1d. reduction on every purchase to the extent of 6½d.; but a society paying 1s. in the £ dividend would only be able to allow a reduction of 1d. on purchases to the extent of 1s. 8d. The low dividend societies are, however, much nearer the abolition of dividend than the high dividend societies; they have not to bridge the wide difference between the two extremes as is the case in high dividend societies.

It is the realisation of these facts which has been responsible for the recent recommendation of a reduced price policy on certain staple commodities, in order to concentrate the benefit of such a reduction on the most common articles required by all types of purchasers.

(3) *Departmental Dividends.*

The different rates of surplus earned in different departments within a society were discussed in Section (a) of Chapter XII. These differences have caused some retail societies to pay departmental dividends. There are, however, only a few societies which pay different rates of dividend on purchases from different departments.

Whilst appreciating the causes which suggest the paying of departmental dividends, it is more than likely that any advantages accruing from such a policy will be more than outweighed by the disadvantages. On the face of things, it appears no more than just to allow each department to stand on its own feet, and if any particular department is only capable of yielding a small rate of surplus, to pay a relatively smaller rate of dividend on purchases from that department. The *prima facie* case, however, is not complete; within a society there are other factors to be considered which, from a dividend point of view, might make it highly undesirable to draw invidious distinctions between the different departments. The question arises as to whether or not a retail society could be so divided into watertight compartments; again, there is a question as to whether or not it is wise to proclaim to all and sundry the different rates of dividend which different departments within a society are capable of earning. Many members, ignorant of the economic causes leading to these differences, might erroneously find in them a totally different cause, *e.g.*, inefficient management.

A particular department within a society does not stand alone; one department may act as an advertisement in general for the society as a whole, and in particular for another department in a society. A ladies' hairdressing department may attract a large number of clients who are potential customers of the other departments; a cafe may render a service and prove a convenience to customers of the other departments; the big departmental stores have themselves fully realised the value of the above-named departments.

Apart from the arguments against departmental dividends centring within a society itself, there is the wider aspect which covers the Co-operative Movement as a whole. The perplexing problems resulting from the differences in rates of dividend obtaining in different societies have been clearly emphasised in previous chapters; differences in policy and method in different societies and in different areas make the work of comparison extremely difficult and the results

of such comparison somewhat untrustworthy. To complicate still further the situation by a policy of different rates of dividend on purchases from different departments in societies already paying different rates of dividend than other societies would considerably increase such difficulties.

Co-operative policy ought to be a policy of integration within the Movement as a whole; to emphasise the difference existing between different departments within a society would lead to disintegration. It is, of course, necessary that internally the differences in the trading results of different departments should be known; the accounts will reveal fully this information, but the information should be interpreted by competent authorities in possession of the full facts leading up to the final results. If any wider difference between the results of different departments exists, then that is a matter for inquiry; but, so far as the legitimate differences exist, these may be accepted and the results of the trading activities within the different departments may be merged in the final results for a society as a whole. A society should be regarded as an entity; it may have numerous activities, but these activities should not be regarded as separate entities.

Many societies show the complete departmental figures in their published balance sheet accounts; some societies show the amount of sales and the amount of net surplus in each department; other societies also show the rate of surplus per £ of sales as an amount. A large number of societies have, however, in recent years, ceased to publish such detailed information in their accounts, largely owing to the fact that the differences referred to in this section have often been misunderstood by a large percentage of the membership.

The lack of support given by societies in general to departmental dividends is a definite indication of the view which the Movement as a whole takes of this policy.

(4) *Flat Rates of Dividend.*

Following on the discussion in regard to departmental dividends, it is logically sound to discuss next the policy of paying a flat rate of dividend for a society as a whole. This latter policy is the one adopted by practically every retail distributive co-operative society in the United Kingdom, the only exceptions being the small number of societies previously referred to which pay departmental dividends.

The chief criticism levelled at this more generally accepted policy of paying a flat rate of dividend for the society as a whole is that it may be a cloak for departmental weaknesses. This argument is based on the assumption that a particular department within a society which does not yield the rate of surplus which might be expected

from that particular department is not subjected to as much examination and criticism as it would be if the results of that department had to stand alone and were not merged in the final results for the society as a whole. It is this criticism which also leads to the statement that some departments within a society are, in some instances, subsidised by the other departments.

There is, however, no reason at all why a flat rate of dividend for the society as a whole should be in any sense whatever a cloak for departmental weaknesses. If the accounts of a society are in perfect order and properly conducted, and if the transactions relating to each particular department are accurately tabulated, the results yielded by a particular department will be shown separately and distinctly whether or not the policy of the society is to pay a flat rate of dividend.

The responsible officials of a society which is well governed and managed will not allow a flat rate of dividend or any other factor to be a cloak for any particular weakness in any section of the society. Irrespective of the fact that certain departments normally may be expected to yield different rates of surplus than other departments, in a well-governed society the trading results of a department will be compared, not with the trading results of other departments within the same society, but with the result which a department of that particular nature would be expected to show. In this connection it is the wisest plan, other things being equal, to compare the trading results of a particular department within a society with the trading results of the departments of a similar nature in other societies, or in other types of business organisation other than co-operative societies.

It is, however, probably true to say that there is a greater likelihood of a flat rate of dividend being a cloak for departmental weaknesses in societies paying a high rate of dividend than in societies paying a low rate of dividend; that is to say, there is more justice in the particular criticism referred to in those cases where it is levelled at societies which pay an abnormally high rate of dividend. The point is that a society which is paying a high rate of dividend is working on a policy which causes all the departments within the society to yield a high rate of surplus; the margin between cost price and selling price is obviously bigger than in the case of a society yielding a generally lower rate of surplus. This wider margin will make it possible for working expenses and costs per £ of sales to fluctuate, without the fluctuations being quite so obvious as they would be if they were taking place within a much more limited margin.

Again, in a well-governed society, the results of any particular department and of the society as a whole should be so judiciously analysed and so carefully scrutinised as to make any doubtful increase in working expenses, and costs, equally as obvious in the case of a society paying a high rate of dividend as in a society paying a low

rate of dividend. Nevertheless, the fact remains that in a society paying, say, a 1s. dividend, a departmental manager will feel that the results of his department are more delicately balanced than in the case of a society paying, say, a 3s. dividend; the former represents a dividend of 5 per cent on purchases, whereas the latter represents a dividend of 15 per cent. It is not intended to suggest that high dividend societies are inefficiently managed as compared with low dividend societies, but these comments may be interpreted as an argument in favour of low dividends.

The policy of paying a flat rate of dividend for the society as a whole is undoubtedly a wise one as compared with the policy of paying departmental dividend, outlined in Section (4). The criticism that a flat rate of dividend tends to cover departmental weaknesses is the major criticism of such a policy, that criticism does not arise in a well-managed and properly-conducted society; the disadvantages of doing other than paying a flat rate of dividend are much greater; hence it may be concluded that the just differences in the trading results of different departments within a society are best drawn together in the final accounts of the society, and one rate of dividend paid on purchases from any and all departments of the society, irrespective of any internal differences.

(5) *Uniform District Dividends.*

The geographical sections into which the Co-operative Union divides co-operative societies are sub-divided into Districts, each district covering about 20 or 30 retail societies. The broad tendency that is discernible for most societies within any one particular section to pay either high or low dividends as the case may be, *e.g.*, Scottish Section, high dividends, and Southern Section, low dividends, is carried still further within the districts, and it is evident that up to a point there is some kind of uniformity aimed at so far as dividend is concerned in societies within a particular section. All the retail societies in one Scottish District in 1932 paid a dividend ranging between 2s. 5d and 3s. 2d.; similarly, in a district in the North-Western Section, all societies paid dividends ranging between 2s. and 2s. 6d.; and all societies in a District of the Southern Section paid dividends ranging from 1s. to 1s. 6d. This tendency to uniformity is, however, only a very broad one, since the general trend is cut across by individual societies within a particular District, which for various reasons pay dividends much higher or lower than the majority of societies within that District.

Nevertheless, such as it is, the tendency is worthy of note, particularly in view of the policy which has, at times, been advocated, that there should be uniformity of dividends in the societies in one District. It is, of course, much more easily possible to achieve uniformity of dividends within the limits of a District than it is in the wider area covered by the sections, or in the country as a whole;

but uniform Dividends within a District, or at any rate an attempt to attain to something approaching uniformity, is desirable for two reasons : one, that it lays the foundation of a uniformity on a bigger scale than the districts, and two, that it is in the interests of the societies as a whole to have something like uniformity. Glaring differences in rates of dividends in societies situated fairly closely together must be bewildering to the lay mind

There are, however, certain important factors constantly operating against uniformity of dividends even in societies within the bounds of one particular district, there are the factors which normally cause a difference between any two societies, viz, differences in the range of departments operated by different societies, e.g., one society may have extended its activities more than another in departments yielding a lower rate of net surplus, yet for all that, such a society may be more nearly meeting the needs of its members in this respect ; differences in management, control, and policy ; differences in location leading to a different type of membership ; differences in the degree of competition met by different societies.

All these and other factors militate against uniformity of dividends in societies which are so close as to be within the same District, but these obstacles are not insurmountable. The danger is that in attempting to gain uniformity, societies may try to level up differences through price adjustment instead of attending to the root causes of the differences ; such a policy would not necessarily be in the interests of the consumer, particularly if the uniform rate aimed at was a high one.

The alternative to uniformity of dividend in societies situated very closely together is often competition between societies, and this is to be deprecated. Competition between co-operative societies is bad, and is the antithesis of the principle for which the societies themselves stand. It is wise to aim at uniform district dividends, and to aim at a rate that is an economic rate, with a view to increasing the efficiency of less efficient societies rather than lowering the efficiency of the more efficient societies ; and if this could be brought about without undue adjustment of prices, the consumer would benefit. Furthermore, it would pave the way to uniformity in a wider sphere, or at any rate to an elimination of some of the anomalies which exist at the present time.

(6) *The Fixing of Maximum Dividends.*

One solution to the problem presented by the variations in rates of dividend, particularly high rates, has been in the form of a suggestion that a maximum rate of dividend should be fixed for the whole of the societies in the Co-operative Movement. The causes leading to the payment of different rates of dividend in different societies which have been discussed in the preceding chapters, indicate some of the difficulties in the way of fixing maximum dividends.

To adopt a maximum rate for all societies would not be wise even if it were practicable. It would also be extremely difficult to decide the figure which would represent the maximum. Presumably the figure would be considerably lower than the rate paid by some of the high dividend societies, and if the high rate of dividend in such societies is due to high prices the fixing of a maximum rate which was lower than their normal rate would be contrary to their policy, and would lead to their attempting the raising of the maximum rate. On the other hand, if the high dividend societies accepted a maximum rate which was considerably lower than their normal rate and scaled down their prices accordingly in order to give their members the immediate benefit of the change, it would be good, but if the bringing down of their rate to the level of the maximum rate caused any relaxation of efficiency, due to the fact that they need not return such a high rate of surplus, it would be bad.

The low dividend societies would be in a much more difficult position even than the high dividend societies; if the maximum rate was fixed at a figure higher than their normal rate it would cause them to consider the raising of their rate to the level of the maximum rate. A maximum rate of dividend is, of course, a totally different thing from a fixed rate of dividend; the great danger, however, would be in the tendency for the maximum rate to become a standard rate, and if the position were created that resulted in the efficiency of a society being judged on whether or not it paid the maximum rate of dividend, such a position would be undesirable, particularly if the low dividend societies were led to adjust prices in order to return a higher rate of surplus which would make possible the fixed maximum rate of dividend.

Whilst the fixing of a maximum rate, then, is not practicable, it is obvious that if the aim of all societies would be the bringing down of their rates of dividend to the level of an economic rate, *i.e.*, a rate made possible by selling at prices no higher than current prices and preferably slightly less, without any relaxation of efficiency, such a policy would be in the interests of the consumer. The adoption of a maximum rate of dividend or a fixed rate of dividend appears to be an attempt to unify an effect rather than an attempt to unify the cause. Different rates of dividend are, to a large extent, the results of certain causes, and one important cause is the policy of societies; if there were an attempt at unification of policy by all societies and this were effected, it would do much to simplify the position. Differences in rates of dividend would then be differences brought about by purely economic causes such as location and efficiency in management.

(7) *Dividend to Non-members.*

It is not possible to state with any degree of accuracy the extent of the trade of non-members with retail co-operative societies. It is, however, certain that the trade brought about by non-members

is not important ; probably at the outside not more than $\frac{1}{2}$ per cent in the case of the majority of retail societies.* Furthermore, the amount of such trade, under existing conditions, is not likely to be great in relation to the total sales of retail societies ; as long as access to membership is perfectly open and simple, and the existing members are deriving an advantage from their trading through the accumulation of a potential dividend, it would be a very surprising thing if non-members traded with co-operative societies to any great extent.

Co-operative societies do not necessarily set themselves out in any special sense to attract the trade of non-members, but they would naturally welcome such trade. The chief desire of co-operative societies is to bring more and more potential customers into membership, and for that reason, primarily, they welcome contact with any new customers. It may be that some proportion of the trade with non-members is in the nature of a prelude to persons joining a society ; some persons may wish to test the quality of the goods and services of a society before actually taking up membership. Other trade with non-members is likely to be of a casual or accidental kind, some persons may at times make odd purchases at a co-operative shop without realising that it is a co-operative shop ; this is more likely to occur in big towns where the local society has large shops, rather than in the small industrial towns or rural areas where there is a sharper division between co-operative and other shops.

Some non-member trade may result because a co-operative society has for sale a special line or a particular article which a customer desires and cannot obtain elsewhere. In addition to the foregoing suggestions regarding sources of non-member trade, it is also true that some non-member trade comes from persons who are members of one co-operative society, but who may in certain circumstances trade with another co-operative society of which they are not members ; loyal co-operators moving about the country on business or on holiday will often trade with the local society operating in the area in which they find themselves temporarily situated and such trade outside any special arrangement, will be registered as non-member trade.

Retail co-operative societies have different policies in regard to trade with non-members, in some societies the purchaser receives no benefit whatsoever from his purchases over and above the ordinary return of value for money which he expects to receive from any shop ; in other societies, however, purchases made by non-members are allowed to rank for a certain proportion of the dividend on purchases, say, one-half of the rate of dividend paid to members ; in some instances, where a society issues a "check" to non-members in operating its adopted check system it will offer to buy back the

* See footnote, Chapter VII.

checks on the basis of the percentage of the dividend it allows to non-members per £ of purchases. So far this discussion on non-member trade has been limited to the trade of retail co-operative societies, but the wholesale societies also transact a certain small amount of trade with non-members, and like some of the retail societies they grant some return on such trade. It has been previously noted that ruling rates of dividend on purchases in the Co-operative Wholesale Society and the Scottish Co-operative Wholesale Society are 4d and 6d. respectively; in addition the Co-operative Wholesale Society in 1932 allowed non-members a dividend of 2d. in the £, and an additional 1d. in the £ on purchases of its own productions, whilst the Scottish Co-operative Wholesale Society allowed a dividend of 3d. in the £ to non-members.

(8) *Dividend for Co-operative Members Trading with a Society other than their Own.*

The fact that each retail co-operative society is a separate organisation and has no connection with other societies save that they are all the same type of organisation and belong to the same Movement, means that when a member of a certain co-operative society is temporarily outside the area covered by the society to which he belongs, in the absence of any special arrangement, he is unable to obtain any advantage from trading with another society over and above the usual concession, if any, granted by the other society to non-members. There is no national scheme under which a member of a particular society can trade with another society and reap the advantages of co-operative membership in the way of dividend on purchases. Most societies operate some particular "check" system, and issue "checks" to all their members at the time of purchasing but there is no national scheme for the clearance of such "checks"; apart from any special arrangements made between certain societies, the "checks" are of use only when passed through the society which issues them by its own members.

In these days there are large numbers of co-operative members visiting the seaside towns during the holiday period each year, and in addition there are members constantly travelling from place to place in the United Kingdom; it is to meet members in these circumstances that some kind of national system is sometimes urged, which would keep co-operative trade within the Movement and give to such members the advantages of co-operative membership on purchases made with societies other than their own.

Certain societies have made special arrangements to facilitate trade of this particular type and the following examples are typical of such arrangements:—

- (1) A society in a seaside town issues checks to members of other societies trading with it, and on the checks being presented by the purchasers at any of the society's shops before the purchasers return home, dividend at the full rate is immediately paid on the amount represented by the checks.

One of the members of the same society is another society in an inland town, and by arrangement, checks of the latter society are given to its members purchasing from the former society. The account of the latter society is credited with the total dividend on such purchases, and in turn this society allows the normal rate of dividend on such checks issued by the former society.

- (2) A society with shops in seaside towns issues checks to members from other societies, and these members are instructed to hand in the checks to their own society. The other societies forward such checks in bulk to the former society which remits to the societies concerned an amount covering the dividend on such purchases at the full rate paid by the former society
- (3) A society in a seaside town encourages co-operative members from other societies to mention the name of their landlady when making purchases, and if she is a member, credits her account with the trade. Where visitors insist on receiving the benefit themselves the society issues to them a non-members' check, and on this they may claim non-members' dividend.
- (4) A society in a seaside town issues checks to members from other societies who make purchases and endorses the checks with the name of the other society and the members' share number. The member retains the checks but it is not necessary to present them, for duplicate check records are kept by the former society. At the end of each half year, amounts covering dividends due to the members of the other societies are remitted to the respective societies with a list of the members' share numbers and amounts due to each. The account of each member is then credited in the books of the home society.
- (5) A society in a seaside town gives non-members' checks to purchasing members from other societies. Checks totalling £1 or over may be presented at the office of the former society and non-members' rate of dividend paid immediately on them. If the home societies care to collect the checks from their own members and claim the total non-members' dividend on them, they may do so, and pass on the amounts to their own members concerned.
- (6) One inland society in the summer of 1934 was urging its members taking holidays in other parts of the country to make their purchases before leaving for holiday. The society offered to send on to the purchasing members at their holiday address any purchase to the amount of 5s. or over, carriage paid, such purchases receiving the full rate of dividend

These examples give some idea of the numerous systems practised by societies to meet this particular problem; there are probably other similar systems in force between different societies, being adaptations in some form or other of one of the above. The fear of the extra clerical work involved in such systems is sometimes the reason for other societies not entering into some such arrangement.

The importance and volume of this particular kind of trade, however, may be over-estimated. In most cases this trade will, in the main, be confined to the foodstuffs departments. People moving about the country on business or on holiday are not likely to purchase furniture or drapery goods to any extent whilst away from home, and even the foodstuffs trade of a co-operative society

is largely a family trade, in which case the purchases made away from home by a co-operative member are not likely to be as heavy as the regular purchases made at home by the same member.

Nevertheless, such as it is, the Co-operative Movement, in its own interests and in the interests of its members, should attempt to keep this trade within the Movement.

(9) *Equalisation of Dividend from Trading Period to Trading Period.*

As far as possible any retail society tries to maintain a regular rate of dividend from trading period to trading period. Although there may be wide differences between the rates paid by different societies, any one society avoids, if it can, any violent fluctuations in the rates paid in different trading periods. A society that is normally paying a dividend of, say, 2s. in the £ has no wish to move down to 1s. 6d. or up to 2s. 6d. for any particular period if the change is of a purely temporary character and is not likely to be maintained.

It would, however, be impossible for the rate of net surplus earned on each trading period to remain at a constant figure per £ of sales ; even the most accurate policy cannot guarantee that over a period of three or six months' trade the final results will be so regular as to be just sufficient to pay the normal rate of dividend in every period. There will be trading periods when the total net surplus will be more than sufficient to meet the requirements of the normal rate of dividend paid by a society, and there will be trading periods when it will be insufficient.

In order to avoid undesirable variation in the rates of dividend paid from trading period to trading period, societies create a Dividend Equalisation Fund ; in periods when the total surpluses are more than are required to pay the normal rate of dividend, rather than temporarily increase the rate, the society credits the Equalisation Fund with the balance of surplus not required ; in periods when the total surpluses are insufficient it augments them by drawing on the Equalisation Fund.

From an accounting point of view the Dividend Equalisation Fund is a special reserve fund ; in addition to its special purpose it provides a fund of interest-free capital within the society just as does any other reserve fund.

By this method the normal rate of dividend, in other than very exceptional circumstances, is maintained, and the difficulties which would follow frequent changes of the rates from period to period are avoided.

(10) *The Advantage of Periodic Payment of Dividend.*

One advantage resulting from the system of selling at current prices and thereby creating a trading surplus, as opposed to the system of selling at cost price plus expenses resulting in no surplus, is that the former method leaves the amount of surplus on each sale within the society for a certain period.

The effects of this are cumulative from the time of commencement of the trading period to the end of the trading period. At the end of the period a society will have accumulated the total surplus, and in the case of a large society earning a fairly high rate of surplus per £ of sales the sum will represent a considerable amount.

Furthermore this total surplus cannot be disbursed as dividend immediately the trading period has come to an end; accounts have to be made up and the clerical staff has to prepare and make arrangements for the payment of dividend, this usually takes some weeks, and in the meantime this considerable sum of money represented by the undisbursed surplus is in the hands of the society and may be used by it.

In the case, say, of a society with a quarterly trade of £500,000 and a quarterly surplus of £50,000 used to pay a dividend of 2s. 6d. in the £, the amount of surplus accumulating throughout the quarter and totalling £50,000 at the end of the quarter is in the possession of the society for a few weeks prior to the date fixed for the payment of dividend. The interest on such a total amount for a period of four or five weeks at a rate of 4 per cent would be £200, and this applies to the surplus on one quarter of the year only.

From this simple illustration, therefore, it will be seen that the periodic payment of dividend made possible by the system under which retail societies operate is a definite economic advantage, small perhaps, yet worthy of note.

Some societies make special arrangements with their bankers for the bank to hold, under specially arranged terms, the amounts which will be required for the payment of dividend.

(11) *The Collective Use of Dividend.*

In Chapter III it was mentioned that a section of the Interim Report of the General Survey Committee, presented to the Liverpool Congress in 1918, dealt with the collective use of profits. The conclusions of that committee in this respect were "that the Movement might go much farther than it has done in the past in extending the collective use of profits." Little, if any, progress in this direction has been made, however, by the Co-operative Movement from the date of that Report down to the present time.

It is very evident that much might be done with co-operative surpluses for the benefit of co-operative members with a portion of that amount which is normally disbursed as dividend. The suggestions put forward by the Survey Committee were that schemes of collective life assurance for members might be formulated, pension schemes for aged members, pension schemes for employees, and schemes for assisting members in the case of sickness, accident, or distress. Arrangements could be made by local societies with the Co-operative Insurance Society for the operation of such schemes.

Schemes for collective life assurance or death benefit schemes based on the average purchases of members operate in a number of societies, and a number of societies at the present time have adopted, or are considering the adoption of, superannuation schemes for their employees. * Little is done through the medium of pensions for members, or schemes to assist in cases of sickness, &c, although one or two societies have special schemes of this type in operation, e.g., pensions for widows.

Grants for educational purposes are, of course, an example of the collective use of surpluses, but these are a separate allocation from surplus and have been noticed previously. Closely allied with this allocation and in some cases arising from it is the provision of reading rooms and libraries which several societies have provided for the use of members; the number of these is now diminishing as public provision is made in most towns in these days.

Probably it is true to say that societies could still do much more to encourage their members to adopt these or similar schemes, but the issue involved seems to be as to how far such schemes shall be allowed to cut across the traditional method of using surpluses to pay as high a rate of dividend on purchases as possible. Quite obviously the members of a co-operative society cannot have the surplus both ways, the benefits of collective schemes mentioned above are great, and in an ideal co-operative atmosphere would be accepted, but at the present time dividend in the Co-operative Movement is still of paramount importance and the majority of members will wish to receive individually the return on their mutual trading in the form of dividend.

* In January, 1936, some 141,899 employees in retail distributive societies were covered by superannuation schemes

CHAPTER XIV.

SOCIAL FEATURES OF DIVIDEND.

The present study of dividends on purchases as an element in co-operative enterprise has been limited, up to this point, to one aspect of the subject, that is, the economic aspect, and the previous chapters have dealt in an exhaustive manner with the mathematics of the whole question.

If the Consumers' Co-operative Movement could be regarded solely as a Movement of economic interest, then this study might have concluded with the last chapter; but the Movement is not limited to the sphere of economics. Important as it has become in the sphere of economics, and occupying, as it does, such a conspicuous position in present-day industrial organisation, it has another very important aspect which demands consideration. This aspect is the social aspect, an aspect that is linked up with the underlying motive of all co-operative effort. The significance of this other aspect must not be lost sight of, but must be considered along with the economic aspect, for the two features are closely bound together.

(1) *Dividends as a Stimulus to Co-operative Capital.*

It was the bad social conditions of the latter part of the eighteenth, and early part of the nineteenth, centuries that gave scope to the activities of men such as Robert Owen, and that brought about the early attempts of co-operative trading in its different forms. In this most acute period of the Industrial Revolution the lot of the ordinary working-class people had become exceedingly difficult, so difficult that it was hardly possible for them at that time to obtain regular and adequate and pure supplies of the chief necessities of life. And so, in an effort to provide for themselves, the co-operative idea sprang into life, born as a definite result of bad social conditions. The fact that its form took that of an economic organisation does not diminish in any sense its social significance. The ideal behind it was a social one, and the fact that it began to express itself in an economic sense was entirely due to force of circumstances. It was designed primarily to protect in an economic sense a large section of the community, and from that point of view it has an important social significance.

That there was a need for this new Movement in the economic and social structure of the time is evidenced by the success of the Movement. The early failures do not condemn the Movement, rather do they stress the necessity for it, for, in spite of the failure, the idea that had taken root persisted until it found, in the Rochdale System, a means of successfully expressing and establishing itself. The subsequent growth and development of the Movement up to the present day are further testimony to the need for such a form of organisation in the general scheme.

Unquestionably, both the social and economic ideals of the Co-operative Movement are bigger than those visualised by the majority of its first adherents, and even to-day, in spite of the success of the Movement, there is only a small minority of its members who see in it its full significance. The recognition of this fact, however, need cause neither surprise nor concern, for in any great movement there will be found only a small minority of people who understand and appreciate the motive behind it and the ideals that inspire it. Nevertheless, the small minority, in almost every instance, constitutes the driving force of its particular movement.

In the years of the Industrial Revolution that saw the birth of the Co-operative Movement there were those who argued that the final struggle would be between the two factors of production, viz., Labour and Capital, and in these two elements they discerned both thesis and antithesis, but it is interesting to note that Ashley, in the concluding paragraph of *The Economic Organisation of England*, took a much wider view than this. He writes as follows :—

“Society is feeling its way with painful steps towards a corporate organisation of industry on the side alike of employers and employed, to be then more harmoniously, let us hope, associated together—with the State alert and intelligent in the background to protect the interests of the community. The world has never yet had complete individualism, it will never, I believe, have complete socialism, for the egoistic sentiment is as permanent an element in human nature as the social. It has to create a working compromise suited for each age, and we are also beginning to realise that the old antithesis which Herbert Spencer in his *Man v. The State* exaggerated into an antagonism no longer exhausts the possibilities of the situation. A place must be found in our social organisation, and, therefore, in our social theory, for the activity and mutual relation of the groups, of divers kinds and scales and degrees of compactness, intermediate between the individual and political Government.”

Bearing in mind the above, it is probably true to say that at this present time there are those who, whether they express it thus or not, feel that individualism may be regarded as the thesis, with Socialism as the antithesis, but who definitely look for the synthesis in the type of co-operative organisation that is establishing itself firmly and securely in the economic and social structure of the community.

Viewing the Co-operative Movement from this higher angle, the whole question assumes entirely different proportions; the small branch shops of the retail distributive societies, situated in

almost every town and village, are not merely the sections of a new type of trading organisation, but are part and parcel of a Movement that has for its mission the substitution of a new type of economic organisation and a new basis for the present social order. This being so, then every function of this new system attains an added significance, and not least in order of importance in this connection is the system of dividend according to purchases.

The Co-operative Movement has sought to express itself in the sphere of trading ; its strongest weapon has been its trading activities, more particularly in the retail distributive trade. From success in this field of endeavour it has worked back to the wholesale trade and the production of many articles needed by its consumer-members, and these processes have necessitated its entry into the sphere of manufacturing and, also, in some instances, into seeking its own raw materials, and in addition the extension of its services into the world of Banking and Insurance. In all this it has never attempted to destroy the orthodox economic structure ; it has merely adapted orthodox economics to its own peculiar type of organisation. The factors of production, viz., land, labour, capital, and organisation, have all been recognised and brought into use in order to engender the success of its efforts. The most revolutionary change that the Co-operative Movement has brought about has been in regard to capital, for as has already been seen, capital in the co-operative sense has been relegated to a position inferior to that which it occupies in orthodox economic theory, and its reward, instead of being exaggerated, has been brought into line with the reward accruing to either land or labour ; that and no more.

The Co-operative Movement cannot be said to have destroyed capital, nor is that its function, in spite of the advocacy of some of the extremists of the Movement ; rather it has recognised duly the importance and necessity of capital and in so doing it has accepted this factor of production and has harnessed it in its own special way in order to meet its particular needs and serve its particular purpose.

From its inception on the present plan it has stressed the necessity for proper and adequate accumulation of capital and for wise and discriminating employment of capital, and by virtue of its system of selling at current market price and thus creating a surplus which has been distributed as dividend according to purchases, it has found a means of constantly adding to its capital. It has been noticed previously in this work that the increases in the capital of the Movement from year to year are to some extent accounted for by amounts allocated as dividend on purchases and interest on share capital being allowed to accumulate as share capital. Probably more than one-half of the annual increase in the total capital of the retail distributive societies comes about in this way.

Dividends on purchases are, therefore, very definitely creative of co-operative capital in a collective sense ; in other words they are providing annually a source of capital that is flowing into a new type of economic and social organisation, steadily building up its financial position and making more possible the functions that it has set itself out to perform.

No other type of industrial organisation is in this position, unless it is the old type of private business that has in recent years been replaced, to a great extent, by the larger joint-stock company type of organisation. The Co-operative Movement, by the creation of surpluses, is able, in a sense, to feed and grow on itself. Dividends on purchases have not only proved to be what Professor Clay describes them as, *viz.*, "a materialistic appeal for an idealistic Movement," but they have also provided a continual flow of new capital into the Movement. This continuous inflow of new capital has made for the financial stability of the Movement and has made possible the developments that have constantly been made, and in times of industrial depression the Movement has in consequence found itself in a relatively advantageous position.

Not only has the Co-operative Movement an advantage in this respect over other types of trading organisations, but it has also a distinct advantage, gained from the same source, over other types of social organisation. Looking at the Co-operative Movement as a social movement it is at once patent that much of its stability is derived from the fact that it has always at its command large amounts of capital, and year by year these amounts are being further augmented by portions of its surpluses being allowed to accumulate in the manner previously discussed. These facts are significant ; from whichever angle the Movement is viewed it will be seen that it has a twofold advantage, it may be described either as a type of industrial organisation using its economic resources to foster its social aims, or conversely as a great social movement finding its material security in its trading activities.

The fact remains that it is a powerful organisation, controlling, at the present time, well over two hundred million pounds' worth of capital, a large proportion of which has been built up from its own trading surpluses, and which, by the very nature of its system of working is likely to grow to much greater dimensions. It will be remembered from the earlier discussions on capital accumulation within the Movement that a portion of the growth in its total capital was accounted for by the constant influx of new members ; there is no reason to suppose that the influx of new members will not, for the time being, continue, whilst in the meantime, those who have previously become members will be becoming established as such, thus increasing all the time the potential number of settled members who may follow out the same method of allowing portions of their dividends to remain within the Movement.

This state of affairs is one that demands all the time increased development on the part of the Movement, more and more capital is being placed under co-operative control, and more and more capital is becoming available for co-operative development and enterprise. Thus dividends on purchases are clearly a builder-up of co-operative capital, and, not only this, but they are providing also in this way, the urge for the Movement to extend and grow. The Co-operative Movement may be said to contain within itself the seeds of its own progress and growth.

(2) *Dividends as an Incentive to Thrift.*

The significance of the growth of co-operative capital in the aggregate, made possible to a large extent by the system of dividends on purchases, left within the Movement, is only exceeded by the significance of the same fact in its relation to the individual. Leaving on one side for the moment the question of new members, it is obvious that, as the total capital of the Movement grows, the capital of the individual member within the Movement must also be growing. Discounting the proportion of the growth of total capital that may be attributable to new members, there is a constant increase in the total capital due to fresh deposits of capital by individual members, and by individual members allowing their dividend, or part of it, to accumulate, thus increasing their own individual capital holding. Taking into account the fact that at the end of 1935 there were 7,483,976 co-operative members, this fact becomes of exceedingly great economic and social importance.

Every consumer must obtain the necessities of life in order to live, and the providing of these necessities through co-operative organisations leads to co-operative trade, and the trade thus brought about results in co-operative surpluses. The division of the surpluses according to purchases means that by the simple provision of the ordinary necessities of life the consumer-member of a co-operative society has provided himself with a surplus which may either be spent in providing other necessities, or which may be saved. Circumstances permitting, a portion of the total surpluses is, therefore, automatically allowed to accumulate in the share capital account of the individual member as part of his savings.

Saving is not easy, particularly amongst working-class people who have a very small margin of their income remaining after the necessities of life have been provided. What is more important still is that the initial stages of any system of saving are by far the most difficult; with a small margin of income left over for saving or any other purpose the initial effort to save hardly seems worth while. When, however, the saving is brought about, not by the ordinary means requiring the necessary volition to save, but by the simple process of buying necessities through co-operative channels,

the question at once assumes a totally different aspect. The will to save is not necessary, at least not to the same obvious extent; the initial effort is not necessary; rather does the saving become a purely accidental process.

It may be said, therefore, that dividend on purchases provides an easy way of saving, but this description hardly does justice to the true circumstances of a great number of co-operative members. It would, perhaps, be better and more truly said that dividend on purchases provides a means whereby great numbers of members may save, who, in a large number of instances, would not have the ability to save; for what they are doing in actual fact, by the purchasing of necessities through co-operative channels, is bringing back to themselves the organiser's surplus, divided amongst them in proportion to their purchases; and under the orthodox methods of trading and in accordance with orthodox economic theory no portion of this organiser's surplus resulting from their purchases would ever be returned to them in this way.

Following this same line of argument through to its logical conclusion, it will be seen that a large amount per annum is being distributed amongst the members of co-operative societies and thus providing an aid to their material security, an aid that is much needed; where otherwise it would be taken under the orthodox system, as the due reward of capital, and be distributed amongst those who have not the same urgent need to add still further to their material security.

It is undoubtedly true to say that by becoming co-operative members many thousands of working-class people during the last 80 or 90 years have paved the way to greater material security, for their dividends on purchases have provided them with a means of saving where otherwise there would probably have been no means. The difference that this has made in a social sense is one that can hardly be exaggerated, for not only has the automatic saving resulting from dividends on purchases brought about saving, but the saving in this way has very definitely stimulated still further saving.

A very simple illustration will demonstrate the point of how dividends on purchases allowed to accumulate can bring about saving and aid the material security of the member. Take, for example, an ordinary working-class family. Assume that the head of the house joins the local co-operative society by paying the nominal entrance fee. Assume that they are prepared to purchase the ordinary necessities of life at the co-operative stores and that they spend, on an average, £1 per week, or say £50 per year, with the society. If the society is paying a normal rate of dividend at, say, 2s. in the £ on purchases, the total amount of dividend due on the above purchases would amount to £5 per annum. If this dividend were allowed to accumulate as share capital, it would not only accumulate

at the steady rate of £5 per annum, but the moment each portion was transferred to share capital, it would at once commence compounding interest at the rate of, say, 4 per cent or $4\frac{1}{2}$ per cent per annum. Thus, in about 15 years, the member would have about £100 standing to his credit as share capital, and this sum would have accumulated, without any effort on the part of the individual, as a direct result of regular trading at the co-operative society. This example is only a typical one and represents the experience of a great many working-class families. The point to remember, however, is this: the head of a working-class family looks at life in general from a very different standpoint if he knows that he is the possessor of one or two hundred pounds' worth of share capital in the local co-operative society provided in this way; he has an added sense of security; he is able to take risks in a small way which otherwise would have been impossible, and he is able to make a better contribution to the well-being of his family, a matter that not only affects the present but that has a very definite effect on the future. Generally, too, he makes a better and more responsible type of citizen.

The accumulation of capital in this way in many working-class homes is so automatic that at times it is temporarily overlooked by the family itself, and it is not an unusual occurrence for a co-operative member to be surprised by receiving a formal notification from the society saying that the share capital account has exceeded the legal limit of £200 and steps are immediately necessary to adjust the account in accordance with the law. There are many lower middle-class or better working-class families to-day who have risen in the course of one or two generations from a much more humble origin and who owe their better social position to-day to the fact that their material security has been aided by the impetus given through the distribution of dividend on family purchases made through co-operative channels. The responsibility of the Co-operative Movement in this respect is very great, for it is the trustee of the savings of many working-class and lower middle-class families, and it has fulfilled its function in this respect in an exceedingly creditable manner.

The stability of the Co-operative Movement in a financial sense has come to be an accepted thing. Depreciation of shares due to market fluctuation is unknown, and the fact that the shares carry a fixed rate of interest and are easily withdrawable has caused them to be regarded as a type of gilt-edged security for the class of persons who constitute the great bulk of its membership, whilst all the time the amounts invested in the Movement are being employed in earning further surpluses, a portion of which may again be allowed to go on accumulating within the Movement and adding strength and stability to the position of the individual member at the same time. In a way, the Co-operative Movement as a result of its success and of its practice of distributing dividend according to purchases, has created a new class of small capitalists, but not the type of capitalist recognised

by orthodox economic theory; rather a class of purely co-operative capitalists, who recognise and accept the new status given by the co-operative system of economics to this particular factor of production. The criticism is sometimes levelled at the Co-operative Movement that it is a movement that, whilst condemning capitalistic methods, has a strata of capitalism running through its own organisation, and by its system of dividend makes a definite appeal to the capitalistic instinct. In reply to this criticism it may be said that, as has been pointed out throughout this study, the Co-operative Movement recognises and uses capital in its own particular way as one of the factors of production, but in so far as it returns to the consumer in accordance with purchases, the surplus savings of capital, it may be said, in effect, to have destroyed capital, at any rate capital as known and conceived under the orthodox system of trading. So far as its individual members are concerned, it has definitely taught them by its own peculiar system to become co-operative capitalists, and in this it has helped them considerably. That persons who have acquired much of their material security in this manner should be expected to retain a co-operative consciousness and use their capital, gained co-operatively, through co-operative channels, cannot be gainsaid.

Furthermore, even as capitalists, the Co-operative Movement offers them no special reward over and above the fixed nominal rate of interest: it is only in their capacity as consumers that the Movement recognises them in so far as the distribution of trading surpluses is concerned.

(3) *Varying Uses to which Dividend is Put.*

Although much has been written about dividends in general and the function of dividend in contributing to the accumulation of capital in the Co-operative Movement, little attention has been given hitherto to the vast sums of money represented by the proportion of dividend actually paid out to the members. This question in itself provides a most interesting social study, for in spite of the fact that probably more than one-half of the annual increase in the total share capital of the Movement is accounted for by dividend and interest on capital left within the Movement to accumulate as share capital, there is a very large amount actually drawn each year.

The total net surpluses of retail societies in 1932 amounted to £19,847,498. The increase in share capital for the year was £2,931,838, so that after discounting any increase in share capital due to increase in membership, and allowing for the amounts allocated from surpluses apart from dividend, and assuming that one-half of the increase in share capital was from dividend left in the Movement, there must have been something in the region of 17 million pounds paid away in 1932. Applying the same test for the decade 1923 to 1932, there must have been about 150 million pounds paid out over the ten years.

It has already been noticed that all the societies do not pay dividend at the same time, nor for the same period. The dominant trading period, however, is the quarterly period, culminating in a quarterly balance sheet and a quarterly payment of dividend which, in most cases, falls in the months of January, April, July, and October; but nevertheless within the year the huge sum already noticed is distributed.

The social effects of this distribution of money must be very great, for it obviously means that at certain periods in certain districts there is a great amount of additional money freely circulating. An inquiry along general lines as to what happens to this money thus distributed brings to light some very interesting facts. That there is a certain proportion of it attracted back again to the particular society which is distributing it is fairly clear, apart altogether from the proportion of dividend that is never paid out at all but left to accumulate as share capital. For example, in some societies where credit is allowed, certain members often develop the habit of utilising their dividend to clear off outstanding accounts owing by them to the society. Again, in some cases, a small proportion of it is returned to the society in the shape of additional small savings deposits or in other cases as loans, but these amounts are very small in proportion to the whole. The departmental managers of some societies, in departments other than foodstuffs departments, *e.g.*, drapery, will often organise special sales of "remnants" or other special lines in the hope of increasing their sales of special articles at a time when many of the members have an additional spending power.

It is, however, well known that quite a large amount of the money distributed by the Co-operative Movement as dividend is enticed entirely away from the Movement. In the industrial towns, particularly in those towns where the co-operative society is very strong and its membership includes a large proportion of the population, extraordinary efforts are made by competitive businesses to attract some of the additional money that is circulating in the district at dividend period. The private trader is often well aware in advance of the dividend period, and frequently arranges his business accordingly, holding special "sales" and offering bargains of different descriptions, in order to persuade the member of the society with a well-filled purse, due to the payment of dividend, to spend some of the surplus at his particular shop, and in some areas the competitive businesses definitely describe these "sales" as "dividend sales."

The "divi." is often used by the member to make special purchases of a domestic nature, such as boots and shoes, suits of clothes, articles of furniture, &c., and this expenditure is often budgeted for beforehand in anticipation of the receipt of the dividend. There are great many other special items of family expenditure that are met

out of the dividend. Often such special items as doctor's bills and rates are paid from the same source, and inquiries reveal the fact that at least in some known instances the local practitioner sends out his bills a few days prior to the payment of dividend; and in another case a town clerk has been known to inquire from the local society the date of the dividend paying as this affected the payment of rates. In one large society the dividend days are regularly fixed on a date just prior to the half-yearly rent days.

Even organised religion does not remain immune from interest in dividend, and evidence is forthcoming to show that in some towns the local churches organise special money-raising efforts at dividend period, because they know that many of their adherents are members of the local co-operative society and will be in a temporarily better position to support these particular efforts at such a time. In some cases the dividend paid in the summer months furnishes an additional source of income to the family holiday fund, and is used in other similar ways to meet extraordinary expenditure of this nature.

Not all the dividend, however, is spent in these ways, either on special or on extraordinary items of expenditure. A proportion of it certainly is saved in various ways, not necessarily within the local co-operative society, but in other organisations and associations. The different means of saving available to the working classes and lower middle classes are many and varied, and it is likely that all these different means are used as depositories of at least some proportion of the dividend. There is evidence of a local savings institution in one area that was compelled to remain open longer hours at the time when the local co-operative society was paying dividend, because the number of its individual contributions was so greatly increased.

The dividend period, and an inquiry into how the amounts distributed as dividend are spent, lead to the unfolding of some very human stories, indeed, there is a tinge of something almost akin to romance about the whole subject, for to many homes dividend means the accession, in the short period, of added wealth which is perhaps sorely needed. It will, however, be admitted that the distribution of large sums of money in this way has very direct social effects, effects that have, in many cases, become habits recurring at the particular period of dividend payment. For many families to be deprived of this periodic special source of income would be a hardship, so used have they become to expecting the dividend to meet their special needs.

(4) Dividend as an Aid to the Material Security of the Member.

The manner in which the amounts paid as dividend on purchases are spent points very clearly to the fact that dividend is an aid to the material security of the members of co-operative societies. Therein lies what is probably its greatest appeal. Whether the dividend

is left in the society to accumulate as share capital representing the savings of the member, or whether it is drawn out and spent to meet some particular item of expenditure, it undoubtedly makes for greater material security of the individual to whom it belongs.

It cannot honestly be disputed that in a great many instances the periodic payment of dividend to individual members provides them or their families with material things which otherwise they would not possess. Previously it has been noticed that dividend provides a means of saving, a means which would not be otherwise available in many cases; the bare necessities of life must be purchased by the poorest members of the community, and if those necessities are purchased through a retail distributive co-operative society the member purchasing will participate in the surplus of the society in proportion to the amount of the purchases; thus a saving automatically takes place. When this proportion of the surplus is paid out as dividend the member receiving the dividend is enabled to obtain the particular articles required. The recognition of this principle has led to such catch-phrases often heard in regard to co-operative trading as "Save as you Spend", "The more you spend, the more you save," &c.

The fact that an individual or a family has the knowledge that when the dividend period comes round they will have a substantial addition to their income also creates a feeling of greater material security. Many working-class families have found, in dividend, that which has formed the nucleus of their family savings, and by means of this have been encouraged in ways of thrift until they have considerably strengthened their financial position, a circumstance which, in course of time, tends to alter their whole point of view and make it very possible for them to improve gradually their position in the social scale. Other families have been enabled, through dividend, to build up for themselves a better home in a material sense, and to provide themselves, if not with luxuries, certainly with material things which make for additional comforts, that type of thing which might be described as a quasi-necessity, but which makes distinctly for the improvement of home conditions in general.

The importance of these factors in the home life of many co-operative families cannot be over-emphasised; they develop what may be described as the dividend habit; they rely on the dividend, and in by far the majority of cases they use it judiciously and wisely, either in direct savings or in indirect savings by providing themselves with commodities which, if not provided out of dividend, would either have to be provided out of the normal family income or done without.

In very few instances is dividend dissipated. Other special items of income that come probably in the nature of a surprise may sometimes be spent without discrimination; it is probably true to

say of money received as dividend on purchases that it is, in the great majority of instances, expended in a wise and sensible manner. There may be something in the psychology of the individual that causes an association of thought to relate dividend to the purchasing of the necessities on which it has been earned, and thus bring about the feeling that this return in the shape of dividend must be used with discrimination, or it may be that in most families the dividend is definitely needed; but, whether or not, it is certainly one of the peculiar features of dividend that it is rarely wasted.

(5) *Domestic Aspect of Dividend.*

With the growth and development of the Co-operative Movement, and the increase in the number of persons and homes affected by the payment of dividend, the relation of the dividend to the domestic economy has become an accepted fact in a great number of cases. Whatever significance economists in general, and co-operative economists in particular, may see in the dividend question and its relation to the total membership of retail societies, there can be no doubt that, in the main, co-operative dividends come within the province of the housewife. A big proportion of the Movement's seven million members is drawn from purely working-class homes; homes conducted on normal working-class lines with the housewife controlling the exchequer and the man in the house acting in the capacity of breadwinner, quite content to leave the spending of the family income in the hands of the housewife. In most cases the family income is limited, either by the rate of wages received by the husband or by the amount of housekeeping money regularly allowed by the husband to the wife. Often very wise and careful consideration is demanded of the housewife in spending the weekly income, particularly in those instances when the claims of a young family have to be met. It is in this connection that dividend on purchases come very definitely within the ambit of the housewife and enters very considerably into the sphere of practical affairs.

The average housewife is very keenly aware of the financial restriction placed upon her. She is also constantly reminded of the claims made upon her as comptroller of the family expenditure; the special items of expenditure of an extraordinary description have to be budgeted for by her in addition to the ordinary weekly expenditure of the home. Co-operative trade with the resultant dividend accruing periodically makes a special appeal to her as providing a source of income which can make possible the extraordinary expenditure referred to, and very often in consequence she becomes a very loyal co-operative trader. It must be candidly admitted that in many cases the housewife is a very loyal co-operative trader on this account, without necessarily being a very loyal co-operator. That position results very often from the fact that she is not aware of either the economic or social significance of the co-operative type of organisation, but she does understand and

appreciate that as a result of trading at the co-operative shop she is thereby becoming entitled to her share of the surplus to be paid out in the share of dividend.

In some instances this habit of trading at the co-operative shop in order to obtain, at some future date, the return of dividend on purchases, becomes so strong as to subdue, rightly or wrongly, all other considerations, apart altogether from any conscious desire to further the interests of the Co-operative Movement or to uphold co-operative principles. Indeed, there is no doubt that sometimes the desire to trade at the co-operative shop and thus obtain the dividend may be said to be prompted by a motive that is, in the main, a purely selfish one ; nevertheless, in so doing, the particular members who may be liable to such criticism are assisting, in a very material sense, a movement which has as its foundation the well-being of both the individual and the community.

There is a time-worn story in co-operative circles, which is circulated in various forms, of a housewife who asked the manager of a co-operative shop the price of some particular article, say, an old box, which she desired to make use of as firewood, and on being told that she could have it without charge replied to the effect that she would rather pay for it and receive the dividend on it. This story intended, in essence, to illustrate the fixed dividend habit of some people, illustrates another point, for probably there are many cases where the husband refunds the amount charged for all household shopping expenses of the wife, whereas the wife herself takes the dividend to meet peculiar and special expenditure. Such a state of affairs continually gives the housewife the necessary impetus to trade at the co-operative shop.

At the same time it must be remembered that there are many members who are sincere and earnest co-operators who, in their desire to express their loyalty to all democratic working-class movements, trade at the co-operative shop, not from any selfish motive, but because in so doing they believe that they are encouraging a system which is fundamentally far more equitable than the orthodox system ; a system which, in the working out of its principles, enables them to employ their own capital in producing pure goods and makes possible better conditions of employment for those engaged in its operations.

(6) *Dividends and the Poor.*

In the *Annual* of the Co-operative Wholesale Society for the year 1902 there is an article by Mr. J. C. Gray, who was General Secretary of the Co-operative Union from 1891 to 1911, entitled "Co-operation and the Poor." Mr. Gray commenced his article with these words :

"It may be said that the principal motive which has actuated all co-operative reformers and inspired co-operative activity of all kinds from the time of Robert Owen right onward to the present day has been to discover the best methods of improving the social and industrial condition of the very poor."

The question, therefore, arises as to how the system of paying dividend on purchases in co-operative enterprise affects the poorer members of the community.

A criticism that has been levelled, on occasion, at the accepted method of co-operative trading, *i.e.*, of selling at current market price and thereby creating a surplus (and this criticism has come from within the Movement as well as from outside), is that such a system handicaps the very poor in that it does not give them any special advantages in the way of buying the necessities of life at a price below the normal market price. It is argued that the co-operative shops should sell at a lower price than other types of businesses and in this way offer greater facilities to the poor to obtain their requirements at a cheaper rate, instead of attempting to create a surplus on trade, or at any rate, the usual proportion of surplus.

There is, no doubt, a great deal of point in such criticism, but it is more often than not a question of choosing the most advantageous of two different methods, particularly when it is remembered that the desire is to bring the greatest advantage to the greater number. Furthermore, the present method of co-operative retail trading commenced, in the main, in 1844 with the Rochdale Pioneers, who were themselves poor people, and at that time the poor people were relatively much poorer, and the general standard of living was relatively much lower, than it is to-day, or has been in recent years. The Rochdale system in its success gave security to all, whereas a system of selling to any degree below the current market price was a source of danger to all.

A system of selling at cost price plus expenses might prove of slight assistance to a few of the very poor, but the disadvantages of the system far outweigh its advantages. There is practically no person these days too poor to join a co-operative society, for in most societies all that is necessary is to make a small deposit of a few coppers and the dividend is kept within the society until the first share is paid up. So far as prices are concerned, the prices at co-operative shops are, in the long run, no higher than those of outside businesses when compared on a quality basis, and very few persons can not afford to pay for the staple commodities representing the bare necessities of life.

There is, however, a feeling prevalent at times that goods can be purchased cheaper outside the Co-operative Movement, although this may be at the expense of quality. Instances are forthcoming of poor people purchasing at other shops because they believed that it was cheaper to do so. One illustration will suffice to indicate this kind of thing :—At the beginning of 1934 there was a family—husband, wife, and seven children—living in one of the most densely populated areas. The wife was a member of the local co-operative society and was a very loyal trader ; she liked to see the total of her

co-operative purchases growing and to know that in due course she would draw the dividend to which she was entitled. After a period of unemployment, however, the husband stopped his wife from purchasing at the co-operative shops and utilised his enforced leisure in searching the neighbourhood in an attempt to find shops selling a lower quality of goods at a cheaper price in order that his limited income, which consisted only of unemployment money, might be spent more advantageously.

This is not an isolated case. It may be that the advantage reaped by seeking out the cheaper price shops is more imaginary than real ; in any case the Co-operative Movement cannot be held responsible for generally bad economic conditions ; but it is a point to be noted in this discussion on the relationship between the Co-operative Movement and the poor.

It is certainly true to say that acute as the problem of the poor may be, it is not as acute to-day as it has been in years past. Furthermore, the dividend system in a sense helps the poor more than any other class of persons, for it brings to those who are in the greatest need all the advantages previously ascribed to it, particularly in the way of greater material security, in providing them with material things which otherwise they would not possess, and in providing an incentive to thrift.

Quoting again in this connection from the article by Mr. Gray, previously referred to, he wrote :—

“It may safely be claimed that wherever people, however poor, have joined a co-operative society and been consistent co-operators, as far as their means would allow, the result has been a material improvement in their position, and the state of poverty which, in some cases, was chronic, has given place to comfort and comparative luxury.”

It is evident that the dividend system can be used to the advantage of the poor, but there is a slight warning contained in the reminder that the Co-operative Movement is a movement primarily designed to aid the poor. In those instances where a co-operative society raises its prices slightly above the current market price in order to create a superficial surplus over and above the true surplus they may be imposing a proportionate handicap during the short period on their poorer members, and to the poorer members the short period is often the all important period. In so doing the society is, in any case, most certainly defeating one of the objects for which the Co-operative Movement was originally brought into being, namely, that of relieving the difficult conditions of the poorer people.

(7) *Dividend as a Means of Bringing Forward Advantages of Co-operative Trading.*

Human nature loves to make a surplus. This fact is evidenced in all human activity and is the driving force behind all human endeavour. One of the immutable laws of nature seems to be to

create more than is required to meet the total needs of mankind, and human nature participates in the world-wide struggle to secure as great a proportion of that surplus for itself.

The fact that even with a world surplus there are those who are unable to obtain the necessities they require is due almost entirely to maldistribution. In part, this maldistribution is due to ignorance which leads to mistakes, and in part it is due to an inherent selfishness prevalent in human nature which leads to a section of the community acquiring more than it needs, whilst another section has, in consequence, to go short. Nevertheless, the principle operating in nature of producing a surplus follows through in human nature and provides the dynamic whereby the whole social and economic fabric is sustained.

It is highly probable that the desire to have a surplus evidenced in human nature is prompted in its origin by the instinct of fear. The fact that the instinct continues to operate long after the need has been met does not in any way affect the argument, for fear is an emotion and as such is separate and distinct from the understanding. The instinct of fear that the material security of the individual is inadequate is not stifled by the knowledge that the security is now more than adequate. The whole story of mankind confirms this view. In his crudest and most elementary state, man betrayed a constant anxiety to make material provision for the days ahead. The history of industrial organisation traces the working out of the same idea through the development of man's activities in an economic sphere; and it is more than idle speculation to suggest that, in the present order of society, many of the great social problems of the age are due to an over anxiety on this score on the part of man, causing him to pursue a policy of self-protection regardless of the ethics of the question.

In pure economic theory production is carried on in order to satisfy human wants, but economic laws do not operate in such a direct and straightforward manner—if they did, the subject would be much less complicated than it is. At some remote stage in economic history another factor obtruded itself, namely, the carrying on of production to satisfy the needs of man and, at the same time, to create a profit or surplus. This question of profit has become so much a part of the economic system that it is not inconsistent with present-day practice to suggest that nowadays production is carried on, in the first place, to create a profit and, in the second place, to satisfy the needs of the consumer. Such a state of affairs may be accepted as right in an economic sense, but it is certainly wrong in an ethical sense, and the social reactions that are bound to follow the operation of such a law are likely to be severe.

It was such a state of affairs, produced by the above-mentioned causes, that was agitating the minds of many people at the end of the eighteenth and the commencement of the nineteenth centuries. The worst evils of the capitalist system were exaggerated by the acceleration in industry and trade, the desire to make a profit became intensified and the social reactions were very severe on a section of the community which, up to this point, had been in a particularly helpless position.

Again, with the desire to protect themselves and the people of their class and to add to their material security, certain sections of the community began to develop the co-operative idea. It is interesting to note in this connection that Co-operation exemplifies that spirit of association which was one of the first characteristics of human nature in those dim barbaric ages of the past when man first sought mutual protection in joining with his fellow men. The early efforts in a co-operative sense were made with the idea of completely destroying the orthodox methods of trading by carrying on trade without making a profit. The earlier co-operative societies made attempts to conduct business at cost price, the fact that there are other costs to be taken into account besides the direct costs led to their undoing, and in most cases they were unsuccessful.

As has been seen, however, the year 1844 provides a fairly clear line of demarcation between the old type of co-operative societies and the new type. The new type, based on the "Rochdale Plan," adapted themselves more to the existing practice by selling at current market price, like any other business, and thus creating a surplus; but they altered the existing order of things by returning the surplus to the purchaser in proportion to the amount of purchases.

If this discovery was a stroke of genius, the genius lay chiefly in the fact that they linked their system with the inherent desire in human nature to make a surplus; and provided a section of the community, which previously had possessed no such opportunity, with the means of making a surplus for itself by the simple method of purchasing the ordinary requirements of life through the co-operative type of organisation. In other words, the first principle of mutual trading on a cost price basis was not strong enough, in the face of keen antagonism, to make itself successful, but the principle of mutual trading on a current price basis with a surplus in view, proved itself to be an entirely different thing. The spirit of association, welded with the desire to create a surplus, produced the Consumers' Co-operative Movement, which, in this present-day, has reached such a prominent position in industrial organisation.

In practice it is indisputable that dividends on purchases provide the greatest appeal to co-operative trading in the case of a large percentage of the members of retail distributive co-operative societies. The dividends are the direct outcome of the surpluses, and it is

possible to make a positive statement to the effect that if the method of conducting co-operative trade did not permit of a surplus being made, that is, if, finally, there was no dividend, the Consumers' Co-operative Movement would not be nearly so successful as it is at the present day.

This statement, although seemingly stressing the most materialistic type of appeal, is not on that account intended to stress it in a sordid sense. It would be possible to express the point in another way by stating that so far as the vast majority of members is concerned, it is the economic appeal of the Co-operative Movement, centering itself in dividend on purchases, which attracts, to a greater extent than the social appeal which finds expression in the ideals of the Movement.

The strength of the Movement as a social force, however, must not be overlooked because of an acknowledgement of these things. The ideals of the Co-operative Movement are clearly recognised by many thousands of its members, as is evidenced by the large army of voluntary workers within the ranks of the Movement. The efforts of the Movement in an educational sense also are constantly being directed towards the awakening of the co-operative ideal in a social sense, as well as an enlightenment of the member in the sphere of co-operative economics, and the result of this educational activity is encouraging from the point of view of the well-being of the Movement.

All this means that the Co-operative Movement is alive to its responsibilities and is not prepared to allow the materialistic appeal of dividends alone to provide its power. Its efforts to create not only co-operative members but co-operators are unceasing. The result is that as time passes, the co-operative idea is being disseminated, not as quickly, probably, as some would wish on account of the rapidity with which new members are joining the Movement, and not as intensively, probably, as some would wish on account of the many fallacies connected with a true understanding of the position, but nevertheless the work is slowly and surely being done. At the moment, however, and until the whole membership of the Co-operative Movement is thoroughly instructed in the social and economic aims of the Movement, the appeal of dividends occupies a central position in bringing the advantages of co-operative trading before the people in a vivid manner.

It must always be remembered in discussing the social features of the dividend question that the Co-operative Movement is primarily a working-class movement, and the greater proportion of its membership is drawn from the working classes. Until the middle of the last century this section of the community had been at the mercy of a somewhat ruthless capitalistic system, and even so far as the purchasing of the necessities of life was concerned, the working classes were

by no means in a happy position. The Consumers' Co-operative Movement, springing out of this difficult state of affairs, immediately appealed to the people who hitherto had not found it possible to protect themselves in a material sense. It would be extremely interesting, if it were possible, to see into the minds of the people of 80 or 90 years ago, who found themselves confronted with the opportunity of joining the Co-operative Movement. On the one hand, there would be a feeling of relief at finding a type of organisation which offered them a way out of the straitened circumstances in which they were placed, due to the capitalistic structure of the economic machine, circumstances which placed them in a particularly defenceless position; with a weak bargaining power and a lack of cohesion amongst themselves. On the other hand, there would be a feeling of repression due to the traditional conservatism of a great number of the working-class people of that time; any new venture of a working-class type would surely be regarded with a great deal of suspicion by the working people themselves, partly owing to their lack of knowledge and experience, and partly owing to an imbued respect for the capitalistic and wealthier classes. This latter cause often prompted the exhibition of a certain amount of contempt by a section of the working classes themselves at all the early efforts in co-operative trading. The story of the opening of the first store at Toad Lane, Rochdale, provides an illustration of this kind of thing.

It became necessary, therefore, from the inception of the Co-operative Movement, to find a concrete answer to the critics of the system, and to those who regarded the early efforts with open suspicion. The system of paying dividend according to purchases provided that answer in a very tangible form. The great mass of people could not understand the social significance of co-operative ideals, or the economic principles underlying co-operative trading methods, but they could understand the dividend. To trade at the co-operative store, and by the fact of purchasing the ordinary requirements to accumulate for themselves a future return in the shape of dividend, was a thing that appealed to them very strongly. It was undoubtedly this system of paying dividend on purchases which laid the foundations of the success of the Co-operative Movement, and brought to it increasing trade and capital, and a constant flow of new members. From those early days until the present time the Movement has continued to grow, largely on account of this materialistic appeal, and even to-day the same appeal is still very strong. It is fairly clear that the majority of new members are attracted to the Movement, more by its system of trade, resulting in dividends on purchases, and by its sound financial position, than by any strong desire to associate themselves with the Movement in an idealistic sense.

Many of the people who have joined the Co-operative Movement with these things in mind have found their material security considerably strengthened through receipt of the dividend. If they

have left their dividend to accumulate as share capital, they have discovered in the Movement a reliable and safe investment for their savings, and if they have drawn the dividend they have found themselves in a position to meet extraordinary expenditure or to buy things which otherwise would have been beyond their means.

In essence, the appeal of dividends is a psychological one and is related to the explanations suggested in the introduction to this chapter. The question arises, however, as to whether or not the Co-operative Movement is right in appealing to a lower interest if it is to justify its claims to be an idealistic Movement. It is not difficult to answer such a question, because even admitting that dividends provide the strongest appeal to co-operative enterprise, much good accrues from the system both in an economic and a social sense. One of the strongest arguments in favour of the system of dividends is that it trains the individual to appreciate the value of a future good against a present good. The margin between selling small quantities of goods at cost price, plus a percentage to cover expenses, and selling the same goods at current market price, is so small as to be of little account, so far as any direct saving is concerned. Assuming that the rate of net surplus on the total trade of co-operative societies is a round figure of 10 per cent, this would mean that on an article costing 2s. 6d. the surplus would be 3d. : to sell the article, therefore, at 2s. 3d., would amount to the same thing as selling the article at 2s. 6d., and allowing the 3d. surplus to accumulate. The isolated advantage of the reduction of 3d. in the selling price of one article, however, would not be nearly as advantageous to the average individual as a large number of accumulated small amounts paid out as dividend at the end of the trading period. Threepence would seem a very small amount, even in a working-class home, whereas 30s. paid out in one amount at the end of the trading period as dividend on a total trade of £15 is a sum which would make an appreciable difference to the family income. Furthermore, the isolated small amounts are much more likely to be squandered than the bulk amount of 30s. drawn at one time. The latter amount is one that is well worth consideration in regard to its expenditure, or if it is devoted to saving, is much more appreciated than a large number of small contributions. The advantage on the side of saving by this means is perhaps the strongest particularly in the case of families living just above the poverty line, for the saving in an automatic way by means of purchasing at co-operative shops is often the only means of saving open to them. Speaking of this particular appeal of dividend, C. R. Fay in "Co-operation at Home and Abroad," says this :—

"This mental habit is fairly utilised by the store, when, temporarily postponing the demonstration of its superiority over the private retailer, it ranges itself under a price list fixed by him, and then subsequently by its dividend impresses on its customers in a striking and definite manner the financial benefit which it confers."

The fact remains that, whether arguing in favour of, or against, the method of co-operative trading, dividend on purchases is the means of bringing forward the advantages of such trading in a most striking manner. It is this method which is largely responsible for the growth and development of the Movement. Whilst not going so far as to say that if there were no dividend there would be no Movement, it is a certain fact that the Co-operative Movement would not have attained to its present position in industrial organisation if it were not for the attraction it possesses in dividend. This attraction has proved strong enough in a great many cases to overcome suspicion and prejudice, and it has justified itself by bestowing on the individual concerned a decided advantage. This appeal and the resultant advantages derived through dividend open the way for an inquiry on the part of the individual into the fuller advantages of co-operative trading.

CHAPTER XV.

CONSEQUENCES OF DIVIDEND.

Sufficient evidence is contained in the preceding chapters to prove clearly that dividend is at the centre of co-operative trade, that is to say, at the centre of the trade of the British Consumers' Co-operative Movement. From 1844, when the Rochdale Society of Equitable Pioneers commenced trading on the present system of distributing dividend according to purchases, dividend has occupied a pre-eminent position in the Co-operative Movement. Not for one moment during the whole of the intervening period has this question of dividend been lost sight of; indeed, the word has become so closely related to co-operative effort and co-operative practice that in these days it has taken unto itself a peculiar significance in this respect.

The foregoing chapters have indicated in brief outline the manner in which the entire structure of the Consumers' Co-operative Movement has, during the last 80 or 90 years, been built round this special feature symbolised in dividend. The historical tables of figures and statistics relating to the growing numerical and financial strength of the Movement and the data relating to the employment of the accumulated wealth of the Movement resulting in co-operative trading, have demonstrated the manner in which the dividend system has reacted upon the economics of the Movement; whilst a cursory examination of the social aspects of the dividend question has revealed the fact that in a social sense, its ramifications are both deep-rooted and widespread.

(1) *Dividend at the Centre of Co-operative Trade.*

It is impossible to visualise the present Co-operative Movement without its accompanying system of dividend; the two are inseparable, in so far that it may be pertinent to ask if the Co-operative Movement has made dividend or dividend made the Co-operative Movement. Undoubtedly the part played in the past by dividend cannot be over-emphasised, and at the present time its importance is still exceedingly great. Within the Movement the officials of retail distributive co-operative societies dare not overlook for one moment the importance of dividend; success is often measured by the dividend standard; dividend is one of the important goals aimed at

in all co-operative trading activity. It would not be an exaggeration to say that in some instances this goal is more prominent than that which should be the first aim of co-operative trading, viz., service to the associated consumers typified in the individual members of the retail distributive society.

It is probably true to say that in some instances, just as the ordinary type of business is conducted first and foremost for profit instead of to satisfy man's wants, so the co-operative type of business is conducted sometimes for dividend rather than to render service to the consumer-member; but even then it must be recognised that such a mistaken co-operative policy has the virtue of returning any accumulated benefit to the consumer-member by the alternate channel of dividend distributed on a purchasing basis, thus placing any benefit on the more equitable basis of consumption, instead of limiting the benefit of distribution among a few, as is the case in the ordinary type of business with its system of distributing its profits in proportion to capital holding.

Recognising fully the extraordinary stress placed on dividend throughout the history of the Consumers' Movement, it is not surprising to find that to a great extent the policy of retail distributive co-operative societies has been shaped in order to realise a certain rate of dividend, which becoming established has to be maintained unless the misunderstandings consequent upon a reduction of dividend are to be risked. Rightly or wrongly, dividend has provided the central appeal of mutual trading to a large proportion of co-operative membership: undoubtedly it is the appeal of dividend which has induced a large number of people to take up membership with co-operative societies. Having been induced by this peculiar feature it has become necessary that the appeal should be continued in order to guarantee regularity of trade and loyalty to the society. In this way dividend has become built into the fabric of the co-operative structure.

It will be admitted at once that dividend is not the highest possible appeal to mutual trading and it is not the highest appeal which should be expressed by the Co-operative Movement. Nevertheless, it is an appeal which attracts a large number of people who, in the first place, would not readily appreciate a higher appeal. Taking into account all the circumstances which have gone into the making of co-operative history, it is very difficult to justify any condemnation of the dividend policies which have swayed co-operative societies. The societies in Scotland and in the North with their traditionally high rates of dividend are able to bring forth sound arguments to account for their particular policy, whilst the societies in the South, with a much lower rate of dividend, can, with equal readiness, submit arguments in favour of their policies.

The important question, however, is whether or not history shall be accepted as providing the key to the future, and whether or not the policy pursued in the past can, with equal success, be carried on at the present time and extended indefinitely.

(2) *The Changing Nature of the Problem.*

There is reason to believe that the weight of opinion in the Co-operative Movement with regard to dividend at the present time is changing gradually. It already has been shown that during the last 20 years there has been a distinct tendency for rates of dividend to be lower, indeed, if statistics are a reliable indication, then the changes between 1914 and 1932 have been almost revolutionary. The tables in Chapter VII. show that one-half of the membership of retail societies in 1914 was receiving dividend at the rate of 2s. 6d. in the £; in 1932 about one-twelfth of the membership was receiving such rates.

The falling-off in the rates of dividend is not something that is peculiar to one part of the country, nor is it due to the rapid extensive development of the Movement in the South where lower dividends than in the North have always obtained. The change is one that has been gradually taking place throughout the whole of the Co-operative Movement.

It may be suggested that the fall in the rates of dividend, indicating a fall in the rates of net surplus, is not so much the result of any change of attitude on the part of the Movement as a whole, but that it is due to other circumstances over which the Movement has no control.

Evidence is available to show that working expenses per £ of sales are relatively higher than they were, and although the margin between wholesale and retail prices may be wider in these days than formerly, a greater proportion of that margin is now being taken up by working expenses and a lesser proportion left as net surplus.

Increased competition by the multiple shop and departmental store type of organisation has become greater in recent years, and whilst acknowledging that probably it is more difficult successfully to conduct trade to-day than it was 20 years ago, owing to the fact that the industrial and commercial machinery appears to be much more delicately balanced than formerly, these outside factors are not the only factors affecting the trading surpluses of co-operative societies and bringing about lower rates of dividend.

A much more important factor making for this change is the gradual change in attitude on the part of the rank-and-file members and the officials of the Movement with regard to the dividend question. This change of attitude is, in the main, of a subtle nature rather than something that can be demonstrated and proved, that is to say, that

it is a change in attitude that is sensed rather than seen, although there is certain evidence available of the change such as the instances previously referred to relating to lower price policies. The case for a reduced price policy in order to capture trade and the call for a more aggressive front to be shown by the Movement in competing with the multiple shops and departmental stores is becoming more insistent within the Movement. The Movement is more conscious in these days of the "passing trade" which ought to be brought into the Movement, and in consequence there is a greater willingness to discuss the necessity for an adjustment of method and policy in order to meet new circumstances and different conditions.

This new attitude is to be welcomed, for it should result in a broadening and an extending of co-operative influence, the old conception of building up the Movement on the basis of high dividends, whilst justifiable from one point of view, most certainly led to a narrowing and limiting of co-operative influence as a whole. The old policy of consolidating on the basis of high dividends might be described as a subjective policy, as opposed to the more objective policy typified in the lower dividends of recent years.

A serious difficulty inherent in a policy making for a reduction in dividend is that whereas a fairly high dividend paid at the end of a given period is a very tangible and obvious result of co-operative trading, a lower dividend accompanied by a lower price policy is not so obvious. To reduce the rate of dividend and to spread the reduction over the complete range of commodities covered by co-operative trade would mean that the benefit, whilst being as real as formerly, and not lost in any sense, would not be marked as clearly to the unobservant; it is the realisation of this fact which has led to a suggestion at times that any reduction in price should be limited to say four or five staple commodities, preferably foodstuffs, which represent the ordinary necessities of every consumer.

All these suggested policies, however, definitely indicate that dividend as a factor of development in co-operative trade has been, and still is, pre-eminent; that it should be possible to consider dividend manipulation and price manipulation in relation to co-operative trading methods points to the fact that dividend is something more than the pure organiser's surplus, viz., that it is a result which is arrived at from the application of a definite policy rather than a natural result accruing from free and unhampered trading methods.

(3) *Certain Fallacious Views in Regard to Dividend.*

Probably the pre-eminence of dividend in the past, as indicated in the last section, is what has led to the greatest fallacy of all in regard to dividend. In theory, co-operative trade is trade conducted on a mutual basis; the Consumers' Co-operative Movement, composed of co-operative societies based on the Rochdale plan, in theory

conducts trade by selling at current market prices and making a surplus which is distributed as dividend on purchases. That surplus should be an effect resulting from trade conducted on normal lines and should be comparable with the profit which is the result of trading in ordinary businesses outside the Co-operative Movement.

There has been a tendency, however, for the dividend in the Co-operative Movement to become something more than the natural effect of a certain cause ; so much so, that the dividend has become the all-important thing which has to be maintained. This undue stress placed on dividend has to some extent caused the position to be reversed ; instead of being an effect it has been transformed into a cause with an effect at the other end of the scale, viz., policy and prices. Dividend " policies " have loomed large in this discussion ; it is a moot point as to whether or not dividend really exemplifies a policy. The distribution of surpluses as dividend should exemplify a principle. To make the point clearer, it may be said that the Co-operative Movement has worked backward from dividend to trade, rather than forward from trade to dividend. The maintaining of a traditional rate of dividend from trading period to trading period has brought about this state of affairs.

Dividend should be the natural result of co-operative trade, but it is true to say that throughout the whole course of co-operative trade, from the commencement of a trading period, the dividend has to be borne in mind by the managers and officials responsible for the conducting of the trade of co-operative societies and the trade of the different departments within a society. From one point of view it may be said that the dividend in this respect has ranked almost in the nature of a trade expense in many instances. A manager in calculating his " mark up " often has to take into account not only working expenses and overhead charges, but also the rate of dividend paid by the society. In all fairness to the Co-operative Movement, however, it should be pointed out that this method is only in line with ordinary trading methods in so far that in ordinary trade, as distinct from co-operative trade, prices must be fixed sufficiently high to cover cost and expenses, and to allow a margin of profit.

It will be seen, however, that such a tradition in co-operative trade has a tendency to lead to a certain rigidity of method and routine. The maintaining of a steady rate of dividend from period to period, without at the moment taking into account equalisation of dividend on an accounting basis, may have advantages in making for steady and regular trade, but when such a rate of dividend has to be taken into account in the selling of every single article, the rigidity is too pronounced.

Trade conducted on normal lines should be flexible, it should respond to world-wide influences which affect the entire field of industry and commerce ; to tie trade down to a certain fixed system

in which the same result must always be shown means in the long run that the impact of such changes must be more severely felt by the individual consumer, instead of being borne by the intermediate trading organisations.

Here again the danger of a high dividend policy is evident. It may be necessary at times to maintain the high rate of dividend when conditions are making for an opposite result. In such times a high rate of dividend can only be maintained through a high price policy which, in an economic sense, cannot be justified.

Apart from the unsound method of reasoning which places dividend in an unduly important position in co-operative trade, the greatest fallacy of an internal nature is that related to the difference between dividend on purchases and dividend on capital discussed in Chapter VIII. The belief that if a co-operative society can increase its trade it will automatically increase its dividend is still widely prevalent. The rank-and-file co-operative members have not yet fully discerned the fact that increased trade means increased liability for dividend; every additional £'s worth of trade carries with it simultaneously an additional liability for dividend at the accepted rate paid by the society concerned.

The disadvantage at which this places co-operative societies as compared with other businesses in any price-cutting campaign in order to increase turnover has already been dealt with. It is necessary, however, to stress still further the apparent weakness in the position of co-operative societies, for it is a weakness which arises directly from the dividend system. It will be quite clear that societies paying a high rate of dividend are at a greater disadvantage in this respect than societies paying a low rate of dividend. A society with a very high rate of dividend would be unable to lower its prices and increase its trade with an increased liability for dividend and at the same time maintain the same high rate of dividend obtaining formerly. A low dividend society could, however, lower its prices and increase its trade, and consequently increase its liability for dividend, and at the same time be in a much better position to maintain its normal rate of dividend, than the high dividend society.

The reason for the difference is that the high dividend society is paying a rate which is higher than what might be termed an economic rate of dividend; that is to say, that another factor over and above the rent of ability and the real economies resulting from co-operative trading has gone into the making of the surplus; that additional factor in most cases is undoubtedly a high price policy. On the other hand, the low dividend society has in most cases already adopted a more competitive price policy, and its lower surplus is more closely related to the rent of ability and the pure economies resulting from co-operative trading. It is thus much better equipped than the high dividend society to enter into a price-cutting campaign which has for its aim an increased turnover.

In this discussion the question of the relative efficiency of different societies has been ignored: low efficiency or high efficiency is not limited to one particular type of society, that is, a high dividend society or a low dividend society. Nevertheless, other things being equal, the high dividend society obviously has a greater liability to meet consequent upon any increase in its trade.

It will, however, be conceded that in the long period both co-operative businesses and other businesses are limited in the extent to which they can pursue a price-cutting policy. A price-cutting policy can be carried to the point when it becomes only just worth while to carry on the business at all, and this economic check to a price-cutting policy will, in the long period, apply to both types of organisation; but carried to the extreme it will affect co-operative societies more than other businesses paying dividend on capital. The co-operative type of organisation, however, claims other factors peculiar to itself which act as a set-off against this disadvantage, *e.g.*, the economies of co-operative trading in a productive, wholesale, and retail sphere; regularity of trade; and the loyalty of its members.

(4) *The Necessity for an Educational Policy in Regard to Dividend.*

What has been stated already in this chapter dealing with (a) the central importance of dividend in the Co-operative Movement, (b) the changing attitude with regard to dividend, (c) certain misconceptions about dividend, points to the conclusion that it becomes increasingly necessary for co-operative members and officials to be educated in the history and economics of dividend. There is still a great lack of understanding of the subject; the majority of the 7½ million co-operative members do not understand the significance either in a social or an economic sense of the organisation to which they belong, and they certainly do not understand the economics of dividend on purchases. The average member is quite content to trade with the co-operative store and to accept without question the normal dividend paid, provided that the dividend appears to be assured. The more inquiring minds, however, are often inclined to examine the question in a superficial way which often leads to wrong conclusions and misconceptions.

By its constitution as a democratic organisation, a co-operative society is governed by its members through an elected committee and it is thus possible for the government of a society to be in the hands of an executive body which does not understand fully the economics of mutual trading in general, and of dividend in particular. It is true that the management of co-operative societies is more keenly alive to these problems, and understands them far better than the members do, but in some instances even the management of a society may not thoroughly appreciate all the problems connected with dividend, and in any case the management of any society is in a very difficult position if the weight of opinion, so far as the committee or membership is concerned, holds a different view with regard

to dividend. The manager of a society or a department may have to interpret a certain policy which is laid down for him although he may realise that such a policy is not the best one or is not sound from an economic point of view. The manager of a society with an average dividend of, say, 2s. 6d. in the £, knows that he is expected to conduct the business of the society in such a way as to make possible the payment of that rate, furthermore, the autonomous nature of co-operative societies has a tendency for these problems connected with dividend to be interpreted in a purely local sense and without any particular regard to their significance in the wider sphere of the whole Movement.

The Co-operative Movement in these days has become so strong in a financial sense and so important in a trading sense, and affects such a large proportion of the consumers of the country, that it is essential that its economic structure, and the economics of its system, should be fully comprehended. From an internal point of view this is necessary if the greatest benefits of mutual trading are to be reaped by the consumers constituting its membership; from an external point of view it is necessary if its activities in the sphere of trade and commerce are to be interpreted rightly.

In the sphere of orthodox economics there is in these days ample opportunity provided for the scientific study of that subject, and although there is still a vast number of people who have little or no knowledge of the subject, there are more people to-day than ever there were who, up to a point, understand the operation of economic laws. The payment of dividend according to purchases, however, is not in accordance with orthodox economic theory, and in consequence ordinary economic laws are applied in a different sense in dealing with the co-operative type of organisation. It is not sufficient to examine co-operative methods in the light of orthodox economic theory.

Up to the present time little has been done to examine the economics of Co-operation; the subject has received little more than passing mention outside the bounds of the Co-operative Movement. Within the Movement, during the last 10 or 20 years, efforts have been made, largely through the Education Department of the Co-operative Union, to provide adequate opportunity for the study of co-operative methods from an economic standpoint. The Co-operative Union teaches a subject which it designates "The Economics of Co-operation," but as yet the subject has only interested a relatively small number of students within the Movement, and there is no book which deals with the subject. Undoubtedly, it is necessary for the 7½ million consumers in membership with retail co-operative societies to be educated in the significance of the co-operative type of organisation, and in the economics of the system of dividend on purchases. It is to this vast field that the co-operative educationist must turn his attention.

(5) *The Ethics of Dividend.*

Before concluding this examination of dividend in its various aspects it is necessary to deal with what might be termed the moral aspect of the system; and to deal with the question as to whether dividend is right or wrong in an ethical sense. The importance of the subject is now sufficient to justify such a question. Dividend on purchases is a new principle which has been introduced into the economic plan, but it is not limited to the economic sphere, it has already been shown that it has a widespread social significance.

Stripped of all its technical embellishments, the story of co-operative effort is that of a group of men and women who, recognising their individual requirements as consumers, join together to supply their own needs by contributing to a common fund which enables them to carry on the necessary trade. Because they conduct their business in the same way as other organisations conduct business, and, within their own group, allow current market prices to rule, they supply their wants, pay each other for the use of the capital contributed, and still have a surplus which they distribute amongst each other in proportion to the amounts of their respective trade. The British Consumers' Co-operative Movement of approximately 7,500,000 members is an enlarged and exaggerated example of the smaller group, true in every respect to the same underlying principle. Without considering any other evidence than this it must be conceded that, in theory, the principle is morally and ethically sound. From the consumers' point of view—and the consumer should receive first consideration—the principle is undoubtedly just and equitable.

The theory of mutual association for trading purposes must be adjudged as equitable in its system of dividend on purchases when considered entirely on its merits; indeed, on ethical grounds it is difficult to imagine any sound arguments which may be brought against the system.

A very simple fact which is often overlooked by critics of the co-operative type of organisation is one that has been borne in mind throughout the whole of this study, and that is the fact that the capital has been contributed by individuals who comprise co-operative membership, and such capital receives remuneration at a fixed and perfectly fair rate, altogether independent of dividend on purchases. If the whole of the surpluses of co-operative societies were distributed in proportion to trade without any regard whatsoever to capital holding, then the system would be unjust since it would definitely favour the largest consumer, whilst placing the largest holders of capital at a disadvantage; but adequate provision for capital having already been made it is perfectly fair to distribute the remainder in proportion to purchases.

The system seems to be so morally sound that in this respect no criticism can justly be levelled at it, even in those cases where a particular group may carry on trade in such a way as to make possible a very high rate of dividend, since any proportion of that dividend over and above what might be normally expected to accrue from the conduct of trade on normal lines is definitely being paid for by the consumer, and is being paid for in proportion to purchases. This is not a defence of high rates of dividend on an economic ground, but it is an attempt to clear such a system from the charge that it is unethical.

The only charge which might have been brought in the past with some justice against the dividend system is that it might have been possible in the earlier days of the Co-operative Movement to exploit the dividend system by charging higher prices in order to make possible a high rate of dividend, without the rank-and-file member being fully aware of what was being done. Such a charge will not hold good at the present time, for even though the rank-and-file member has still a great deal to learn about the economics of dividend, there is no misconception about extraordinary high rates of dividend. If certain groups still prefer to conduct business in such a way as to make possible a high rate of dividend and thus to save as they spend, it is a matter which is entirely their own concern. So far as the greatest good of the greatest number is concerned, it may not be the best system, but it is quite just in its reactions on the persons within that particular group.

CHAPTER XVI.

THE FUTURE OF DIVIDEND
AND CONCLUSIONS.

Any discussion with regard to the future of dividend can be little more than speculation, but taking into account the present position of trade and industry, and the tendency during the period of co-operative history covered by this survey for rates of dividend to fall, it is possible to essay an opinion on the future of dividend as a feature of co-operative trade.

It is highly improbable that the Co-operative Movement will stage a return to excessively high rates of dividend, on the other hand, it is more likely that the co-operative societies which still pay a high rate of dividend will gradually scale down their rates to a more moderate figure and thus reduce to a still lower figure the average rate for the Movement as a whole. The economic conditions obtaining at the present time do not make for high rates of surplus; competition in the sphere covered by co-operative trade is now much keener than it was and working expenses are relatively higher; and the rank-and-file consumer is, all the time, becoming more conversant with the economics of dividend. These general factors alone will prevent anything in the way of a general return to a high dividend policy.

In addition to these influences of a general nature, the changing attitude within the Co-operative Movement is in favour of a lower price policy, even if this should mean a reduction in rates of dividend. There is a growing feeling in many quarters within the Co-operative Movement that the appeal of the Movement expressed by high dividends is not the highest and best appeal and that this appeal does not attract the finest and most permanent type of member. Furthermore, the urge to increase capital by a system of high dividend is not as strong as it was. The Co-operative Movement should always be able to use as much capital as it can obtain, but the necessity for additional capital to meet immediate needs is not as urgent as it was in the early days of the Movement.

Two things, probably more than any others, are responsible for the suggestion that the future of dividend will see even a lower average rate than obtains at the present time. One is the growing realisation that a very high dividend which is the result of high prices does not give to the greatest number of members the greatest benefit in the long period, and that from the wider point of view the service that the Co-operative Movement could render to the consumer is limited by a high dividend policy. The other is the growing desire on the part of the Co-operative Movement, to enter more strongly into competition with the businesses engaging in the same type of trade, and, to extend its own productive activities. To do this it will be necessary to lower prices and run the risk of reducing net surpluses, with a consequent reduction in rates of dividend, but it is felt that the Co-operative Movement can rely on the pure economies resulting from co-operative trading methods and can favourably compete with other businesses in such a way as to extend its activities in departments in which, at the present time, it is not so strong.

The early days of the Co-operative Movement were remarkable for the risk and enterprise displayed. Following this period of adventure the Movement passed into a period which was semi-conservative in spirit and outlook, a period in which the internal consolidation of the Movement was strongly emphasised. The later post-war years, however, have seen remarkable spasmodic efforts of an extensive character, resulting in the extraordinary growth of membership in some of the Southern societies, and striking increases in quantity sales in some retail societies which have adopted a lower price policy. These spasmodic breakaways from the more conservative attitude indicate a return in the future to a period of greater enterprise. Such enterprise will probably have to be at the expense of a sacrifice of high dividends, but if it leads to a better co-operative use of accumulated co-operative capital and an extension of the services rendered to the consumer it will be a more eloquent justification of co-operative effort than that expressed in high dividends.

The co-operative ideal calls for growth and expansion; the Co-operative Movement must in the future continue to pursue that ideal if it is to be true to its first principles; any obstacle which prevents the Movement from pursuing that ideal must in course of time be removed. High dividends have probably made their contribution towards the consolidation of the Movement, but it has yet to be proved that they have favoured its expansion. Hence it is likely that in future the Movement will seek a lower dividend policy in order to aid its expansion.

Another very serious problem which has emerged from a cursory study of the social aspects of dividend and one which may in the future lead the Co-operative Movement to a lower dividend policy is that of the relations of the Co-operative Movement with the poor.

It has not been possible in this study of dividends to enter into a very close examination of this problem, but there is more than a suggestion that the Co operative Movement, if it pursues a high dividend policy, is not meeting, as it should, its responsibilities to the poor. The whole question is worthy of careful attention by the Movement, and if it can be shown that the Movement is not rising to its responsibilities in this respect it may be led to adjust its policy in order to provide for the needs of the poor. Such adjustment may well mean lower prices and a lower dividend policy.

Dividend Assuming an Extension of Co-operative Enterprise.

Closely linked up with the discussion in regard to the future of dividend, is the question of dividend assuming an extension of co-operative enterprise. By extension is meant not only a development in departments of both wholesale and retail co-operative trade to which, in the past, co-operative development has been mainly limited, but also a greater extension of co-operative effort in the sphere of production and manufacture, not only in industries where co-operative production and manufacture are at present carried on, but also in industries which the Co-operative Movement has not yet entered.

It will be recalled that one of the first principles of the Consumers' Co-operative Movement, is that from retail distribution, the Co-operative Movement shall work back through wholesale distribution to production and manufacture and control of raw materials necessary to supply the wants of its members. It has already been observed that the Consumers' Movement, through the primary federations represented by the wholesale societies and through the federation of retail societies, has gone so far along this particular line of effort, but a great deal more remains to be done before the Co-operative Movement is supplying its membership through the retail societies with 100 per cent co-operative productions.

Even when it is possible for the whole of the sales of retail distributive societies to be sales of co-operative productions, there will still be room for extension of co-operative effort at both ends of the scale. There will be room for development at the retail distributive end before the consumer is able to purchase all that he needs at the co-operative store, and there will be much room at the other end of the scale before the Co-operative Movement controls the mining and extractive industries up to the point when it can provide itself with all the necessary raw material for the production and the manufacture of all the commodities necessary to supply all the needs of its members. The point, however, is that to extend co-operative effort to these ends will certainly entail a modification of the dividend system. There is no reason to suggest that any such extension will affect the principle of dividend on purchases, but there is much reason to expect that it will result necessarily in more modified rates of dividend.

There are, however, arguments on both sides of the question : on the one hand, it may be pointed out that an extension of co-operative effort over a wider field of retail and wholesale distribution and of production would mean that for a period the new efforts would not yield very high rates of surplus, and in some cases the new efforts might never reach a high rate of surplus on account of the particular spheres in which such efforts were made ; on the other hand, it may be argued that this extended co-operative effort would lead to the economies of co-operative trade being kept within the Movement over a wider area.

Nevertheless, it is more probable that the Co-operative Movement will have to modify its dividend policy and be satisfied with a lower return if it is to extend greatly in entirely new fields of industry.

The Co-operative Movement up to the present time has operated in a sphere in which it has been possible to conduct trade in such a way as to yield fairly high rates of surplus : it cannot hope to maintain these high rates if it extends its activities to include some of the heavier industries. These arguments all point to the fact that in the long run high dividends will impede co-operative progress and will tend to deter co-operative enterprise. A lower dividend policy would materially assist in an expansion of co-operative enterprise, in fact a lower dividend policy will be necessary if an expansion of co-operative enterprise to any great extent is to become an established fact.

SUMMARY OF FINDINGS.

Although the detailed discussions embodied in this essay must be thoroughly examined in order to appreciate all the factors affecting surpluses and dividend in their various aspects, the following list of findings centralises the main points arising out of the examination of the subject.

- (i.) That dividend on purchases has been of very great importance throughout the entire history of consumers' co-operative societies based on the Rochdale plan.
- (ii.) That dividend has been of material assistance in building up the capital of retail and wholesale co-operative societies.
- (iii.) That it is possible for co-operative societies to earn a higher rate of surplus leading to a higher rate of dividend on capital employed in their own businesses than on capital otherwise invested.
- (iv.) That different departments within a co-operative society yield a different rate of surplus and that there is a wide diversity in the rates of surplus earned by different societies.

- (v.) That co-operative societies distributing surpluses as dividend on purchases are in a totally different position from non-co-operative businesses distributing profits on capital, in that increased sales in co-operative trade mean an increased liability for dividend.
- (vi.) That because of (v.) a co-operative society is at a disadvantage compared with other businesses in conducting a price-cutting campaign in order to increase turnover without any additional capital expenditure, particularly in those cases where the dividend paid by the co-operative society is high because prices are high.
- (vii.) That there is a wide variation among retail societies in the rates of dividend declared by them, but that the general tendency is for societies in Scotland and the North to pay the highest rates, for societies in the Midlands to pay average rates, and for societies in the South to pay the lowest rates.
- (viii.) That during the last 20 years particularly, the tendency has been for dividend rates to fall. This tendency has been general throughout the whole Movement.
- (ix.) That whilst it is not possible to compare the working expenses of co-operative societies with the working expenses of other types of business owing to the lack of reliable data, it is probable that there are both advantages and disadvantages in both types of organisation in this connection. Working expenses in recent years, however, are taking up a greater proportion of the surpluses and leaving a lesser proportion for distribution as dividend.
- (x.) That whilst it is not possible adequately to compare prices in co-operative businesses with prices in non-co-operative businesses owing chiefly to differences in quality of goods, there is sufficient available evidence to show that in co-operative trade there is, in a broad sense, a relationship between high prices and high dividend and low prices and low dividend.
- (xi.) That dividend acts, up to a point, as an incentive to co-operative trade, although it is probable that the incentive to trade arising from high dividends is not quite as strong in these days as it has been in the past.
- (xii.) That there is a tendency for dividend to be slightly less important in the Co-operative Movement at the present time, and a possibility that it will be of less importance in the future, than it has been in the past.

- (xiii.) That in many cases the rate of dividend is determined beforehand by tradition, and the policy of a society is shaped towards that end, instead of the dividend being a pure and unaffected trading result.
- (xiv.) That in consequence of (xiii.), in some instances, dividend may consist of two elements, (a) a *real* dividend, and (b) a *superficial* dividend; the former representing the pure organiser's surplus and the latter being the result of a particular internal price policy.
- (xv.) That co-operative trade can, and does, yield a *real* surplus resulting in a *real* dividend which is definitely a rent of ability, apart altogether from a *superficial* dividend, which in some instances is imposed on the *real* dividend, by the different price policies previously mentioned.
- (xvi.) That dividend has a very strong social appeal.
- (xvii.) That dividend is used as an automatic means of saving in the case of a large number of co-operative members.
- (xviii.) That dividend plays an important part in the domestic life of a large number of members, in that it is regularly spent on specific purposes and in the long run adds to the material security of the members.
- (xix.) That a relatively high rate of dividend, representing something more than the pure organiser's surplus, will in the long run impede the progress of the Co-operative Movement in preventing its expansion in departments and trades which do not yield a corresponding high rate of net surplus.
- (xx.) That, other things being equal, the Co-operative Movement may make intensive progress as a result of high rates of dividend, but its extensive progress will be accelerated by lower dividends, particularly if the lower dividends mean that an immediate benefit has been given to the consumer rather than a postponed benefit.
- (xxi.) That relatively little use of surpluses, in a collective sense, is made by co-operative societies, and that there is little indication that any change of attitude in this respect is likely.

Conclusion.

The purpose of this essay has been to examine the system of dividend on purchases in its various aspects; it has not been its purpose to make any recommendations with regard to dividend.

The greatest difficulties experienced throughout the whole of this examination have been caused by the diversity which exists between the different retail societies comprising the retail Consumers' Co-operative Movement, and this diversity indicates clearly the desirability for a greater co-ordination of method and policy on the part of the retail societies.

Dividend is a result, and it would not be wise to aim at a uniformity of results only through uniformity in method and policy. There will always be many factors which will make for differences in results, but in many cases it is clearly evidenced that the differences in results are exaggerated by differences in method and policy.

Whilst it is not wise in an economic sense to *force* a uniformity of results, it is desirable that at the other end of the scale there should be greater uniformity. If there were an absolute uniformity of method and policy on the part of retail societies, then different results would be occasioned only by such recognised factors as difference in location and difference in management.

It is true that each retail distributive society is a separate and distinct organisation, but if the principle of Co-operation is to be expressed to its fullest extent throughout the whole Consumers' Co-operative Movement, there must be fuller co-operation between the different societies.

Co-operation and co-ordination in method and policy would do much to strengthen the economic importance of the Consumers' Co-operative Movement; comparisons would be made much more easily possible, and the results of such comparisons much more reliable; aggregate figures for the whole Movement would tell with greater force the real position of the Movement; joint action would be more easily possible and more quickly carried out; dividend would not, in any instance, be the aggregation of a series of remote causes, but would be the real and pure result of genuine co-operative effort throughout, created by the millions of co-operative members trading together in a common and united co-operative scheme.

APPENDIX A.

LIST OF THE GEOGRAPHICAL SECTIONS INTO WHICH THE
CO-OPERATIVE UNION GROUPS CO-OPERATIVE SOCIETIES, WITH
A NOTE OF THE AREAS COVERED BY EACH SECTION.

(From Co-operative Union Congress Reports.)

- Irish Section** . . .Ireland.
- Midland Section** ...The Counties of Cardigan, Derby, Huntingdon, Leicester, Lincoln, Montgomery, Northampton, Nottingham, Radnor, Rutland, Salop, Stafford, Warwick, and Worcester.
- Northern Section** . . .The Counties of Cumberland, Durham, the North Riding of Yorkshire, Northumberland, and Westmorland.
- North-Eastern Section** ...The County of York, and part of Derby, Lincoln, and Nottingham.
- North-Western Section** The Counties of Caernarvon, Chester, Denbigh, Derby, Flint, Lancaster, Merioneth, Stafford, part of Westmorland, and Isle of Man.
- Scottish Section** ...The Counties of Aberdeen, Argyle, Ayr, Banff, Bute, Caithness, Clackmannan, Dumbarton, Dumfries, Edinburgh, Elgin, Fife, Forfar, Haddington, Inverness, Kincardine, Kinross, Lanark, Linlithgow, Peebles, Perth, Renfrew, Roxburgh, Selkirk, and Stirling.
- Southern Section** ...The Counties of Bedford, Berks, Bucks, Cambridge, Essex, Hants, Herts, Isle of Wight, London, Kent, Middlesex, Norfolk, Oxford, Southampton, Suffolk, Surrey, and Sussex.
- South-Western Section** ...The Counties of Cornwall, Devon, Dorset, Somerset, and Wilts.
- Western Section** ...The Counties of Brecknock, Carmarthen, Glamorgan, Gloucester, Hereford, Monmouth, and Pembroke.